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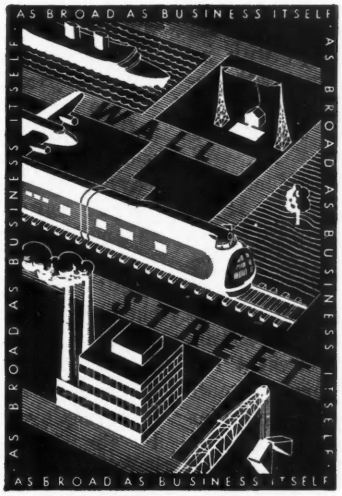
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

MORE TAXES . . . Congress is in process of adopting the heaviest tax increase ever imposed upon our people and corporation. As it now stands it is a more sensible and realistic bill than most observers originally thought it would be possible to get in an election year. For this we can chiefly thank the Senate Finance Committee. All that we can say for the Treasury's part in this program, during the many months it has been under formulation, is that it rates no more than one good Bronx cheer.

Yet in typical fashion, with this tax program still unfinished, Mr. Morgenthau makes the headlines again with a demand that, as soon as possible after the bill is adopted, Congress start work on another one to yield not less than another $6 billions. It is no wonder that the only reaction of Congress is a weary sigh.

True, there will have to be another tax bill—but there is no good reason why it should follow the tedious course of the present legislation. The House Ways and Means Committee could save much time, and probably write a saner bill, if it would start work on its own early next year, without asking Treasury recommendations.

We respectfully suggest that the objective should not be just to frame another boost, but to set up the final war-economy tax program that is called for by the hard realities of the situation and declare it to be the policy of Congress that it shall stay put for the duration. This amateurish business of one or two new tax programs every year, with each hanging fire for months at a time, has simply become intolerable.

Two things are now so obvious that even the Treasury will eventually have to come around to them. First, whether through a sales tax or otherwise, the major part of any further increase in the total tax revenue will have to be had from the masses of lower-income people. The lion's share of what can be had from others, and especially from corporations, will already have been earmarked for the Government in the pending bill. Second, with "tax debt" due to become so large a percentage of the total incomes of individuals, some form of pay-as-we-go system for current-year collection at the source will have to be instituted. For this sensible reform we evidently must also look to Congress.

WAR TRANSPORT . . . In this war our side can count on a marked superiority in the relatively early future in total weight of manpower and arms—assuming, as we do, that Russia will continue to fight about as effectively as she is now fighting. The decisive long-run factor for the United States is over-seas transport.

If it is a long war—which is the basis on which our

preparations are being made—you are going to see some transport developments that stagger the imagination. Merchant and naval ships will, of course, be turned out in almost incredible volume. The ships will be increasingly supplemented by vast fleets of cargo planes. There are apparently reliable reports that before mid-1943 some 25,000 cargo planes of 10 tons capacity will be in operation. These are excellent for quick battle front support, for carrying emergency supplies and for serving areas not otherwise reachable except with intolerable delays. Super-cargo planes, some with capacities of 60 to 80 tons, will be increasingly produced next year, but in total influence are not expected to become effective before some time in 1944.

Looking further ahead, there are tremendous possibilities for 1944-45 in the Alaska highway. At its northernmost terminal, a very short ferry hop by planes or ships or both could carry huge volumes of supplies into Siberia. What the Russians have done or will do about a trans-Siberian highway is not known. But it is known that there are routes along which the terrain is far easier than in Alaska. This is the Great Circle route from our north Pacific bastions—shortest route for trucks and planes to the heart of Russia, to China and India. Planes already are flying that route in steadily increasing numbers. It is not out of the question, if the war is protracted, that it will also become the longest, most effective and most important military trucking highway in the history of the world.

It is now generally assumed that Germany's fate will be settled from the West. Perhaps so. We make no predictions. But there are big doings ahead in Asia; and in a war which had upset many preconceptions it is not impossible that the most decisive chapter may be written for Hitler, as for Japan, in the East. It is in that direction that there is the shortest water to cross, the biggest land area and the most fighting men to help us.

SCRAPING THE BOTTOM . . . Gold was once the most prized of all metals. It is not going to disappear from our scheme of things nor lose its monetary role, which is important both practically and psychologically. But war temporarily alters a great many relative values. We have a great abundance of monetary gold, but a shortage of the "common" metals that now are precious for war purposes. So we are going to close down the gold mines for the duration. That is the edict of W P B.

There are only a few thousand miners involved, perhaps 10,000 or so. But they are needed in more useful types of mining. In the total scale of this war, this is a small incident. It brings home that we are beginning to scrape the bottom of the barrel. We are going to conserve and utilize everything and anything that can help win the war. Little scraps of metal. Little groups of labor. Little bits of fat from the cook stoves.

Extension of rationing is coming. Rationing of manpower. Rationing of food. Shortage of skilled labor is becoming increasingly serious. In some quarters there is growing agitation for conscription of labor. Voluntary methods for the most effective use of labor will be given a thorough trial. But if this does not work, the Manpower Commissioner will have to get tough. This is a war to the bitter end, and the personal desires of the individual must be subordinated for the duration.

It will be the same way with food. Luxury items are going by the board. Even some of the "essential" articles are disappearing from the dealers' shelves. This situation will become progressively worse. But there will be plenty of basic foods to assure preservation of our national health. No one will go hungry.

As compared with our fighting allies and our enemies, we are still living a somewhat soft, fat life. But that national belt is going to be progressively tightened. We will not only take it. We will like it. We are on our way to becoming for the duration a leaner, harder, tougher nation—much tougher than the German and Japanese war maniacs ever dreamed we could be.

LABOR'S EFFICIENCY . . . In the twelve months ended with July the output of manufacturers increased 15 per cent, according to figures of the Federal Reserve Board. Over the same period, as shown by reports of the Bureau of Labor Statistics, man-hours of work by labor employed in the manufacturing industries increased by almost 24 per cent. In other words, there was a considerable decline in output per hour per worker.

These statistics lend obvious support to unofficial reports from many industries that the productivity of labor has been declining. There are many unavoidable reasons for this, including the following:

1. As compared with a year ago, an increased proportion of total manufacturing is represented by high-precision items. Many types of war items require more man-hours of labor per unit of production than would be required for a proportionate physical output of non-war goods.

2. Labor turn-over is extraordinarily high, due partly to the draft, which means less experience and skill for the average worker in the average job.

3. In some industries, notably machine tools, long hours of work result in sufficient chronic fatigue to reduce worker efficiency.

4. In many plants the supervisory forces have been stretched very thin over much enlarged labor forces, which tends to reduce productivity per worker.

5. Many managements, as well as workers, have had to learn in a very short time how to produce things in which they had had no experience whatever.

When it is remembered that this nation did not shake down to an all-out war effort until after Pearl Harbor, which was only last December, the production record—including productivity per worker—gives no cause for either dismay or criticism. It has been amazingly good.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 6. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, October 12, 1942.

As I See It!

BY CHARLES BENEDICT

MORE ABOUT THE SECOND FRONT

JUST as "Quisling" means contemptible traitor, so today the expression, "second front" is a call for general offensive action—for initiative in dealing with the visible German weakness. It is a demand for a knockout blow before the Axis catches a second breath.

In Russia we see the Nazis crumbling before the supermen of the Red Army, and we want to demoralize them utterly.

We are already successfully on the offensive in the Pacific where the magnificent courage and gallant efforts of our forces in beating back the Japs is making history in the air, on land and on the sea. And we are inspired to do the same in Europe.

Anxiously waiting, the people of both the United States and England have been watching the best fighting weather slip by. Is it any wonder that they are impatient because a stalemate exists on the western front—and in Egypt? They are terribly anxious because thousands of our men are entrenched on the crowded British Isles—waiting for what?

There would be no anxiety in the minds of the people if they were certain of the war leadership. Moreover, while the average American has tremendous respect for the stamina and courage of the English people, he has not the same confidence in British war policy; nor in the politics of the conservative party that controls Britain. He is disturbed by the conflict of opinion. Bewildered and resentful also about the complaints emanating from high places regarding our flying fortresses after their amazing performances in the Pacific and recently in Europe.

The average citizen wants American leadership because it has shown up so remarkably well in the Pacific; because he believes we have Hitler licked on his own admission that he cannot cope with our new technic, since it does not follow orthodox lines. In his rage Hitler called us "fools," but only because he had underrated American ingenuity, originality, adaptability and resoursefulness. He reckoned on decadent America and found adventurous and high spirited opponents, who have in a short space of time put him on the defensive.

This devastating modern war cannot be permitted to be prolonged unduly without reducing the world to a primitive existance and destroy civilization as we know it. We are facing cruel and vicious enemies who are seeking to drag us down with them as they fall, so that there must be action now, in addition to bombardment from the air of their productive facilities, if we are to win. We hope it will be soon.

Harris and Ewing

Britain's "Commandos" and America's "Rangers" are part of our new technic which Hitler has called, in admission of his weakness, "unorthodox."

How Far Can This Market Go?

The top of this bull market has not been seen. But we believe longer-term buyers should await the next intermediate reaction, whether or not it is preceded by 5 to 10 points of additional advance in the near future.

BY A. T. MILLER

More and more people are now getting bullish on the stock market. Million-share days are back with us. Quite recently some of the more official interpreters of Dow Theory proclaimed it to be a genuine bull market.

While we take no exception to this we are constrained to regard this belated enthusiasm with mixed feelings. The probability that this is a bull market is not a new thought to us. Many months ago, with prices much lower than they are now, we were expressing the opinion that the average probably had made their lows for the year and possibly for the duration of the war.

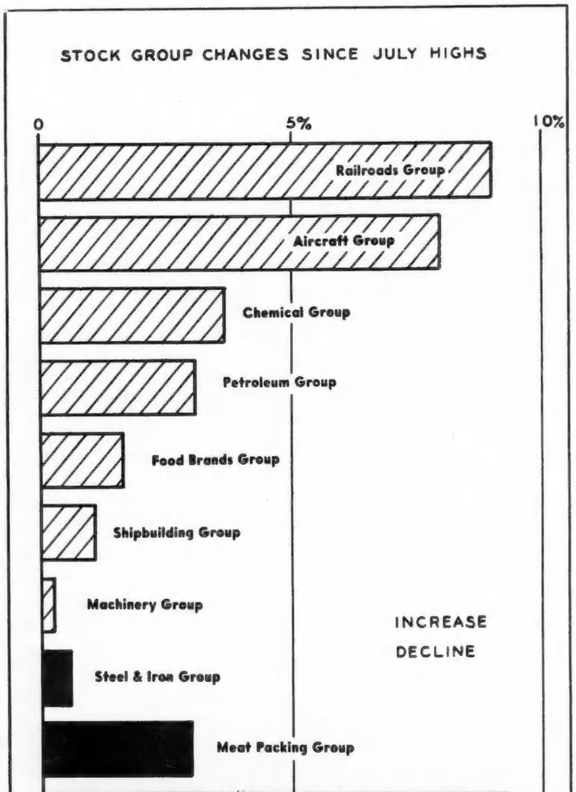
Writing on April 27, the writer observed that: "We have a feeling that this spring, maybe within a matter of days, will see the lowest average stock prices of the year." However, at that time, convincing technical support for a definite jump to the bull side had not appeared, and this fact was emphasized.

Even before that analysis reached our readers, our technical method of appraisal came through with an intermediate uptrend signal, and this was reported here in the analysis written May 11, which specifically cited the then strong technical action of motors, rubbers and accessories.

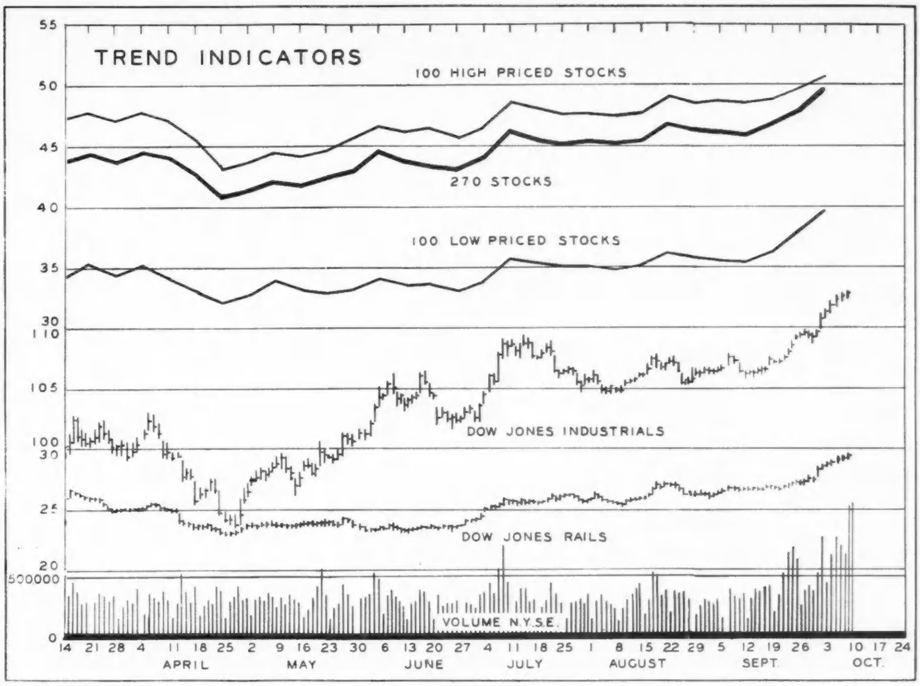
In the next analysis, written on May 25, there was presented a list of recommended common stocks on which, if purchased on our advice, there should be about 200 points profit available now.

Of course, it is human to get more bullish as prices move higher—especially if one has not been bullish earlier. We think—as do not a few other analysts now—that there is a possibility of this rise extending to 120 or even 125 in the Dow industrial average before this bull market meets with its first intermediate reaction, as distinct from minor recessions. If so, that would add 5 to 10 points to a rise which already has amounted to 22 points. If so, from 70 to 80 per cent of the first leg of the major uptrend has already been traversed. The normal expectancy is that in due course, even if one has to wait weeks for it, intermediate reversal will cancel a *minimum* of one-quarter to one-third of the preceding advance.

Thus the chances are that there will be another opportunity, at no very distant time, to purchase stocks at least as low as they are today and perhaps lower. That thought and the large advance already experienced modifies our own enthusiasm no little bit at present. Due to the unavoidable time lag between the writing of these analyses and the time at which readers can take action, our advices usually are more useful to investors and speculative-investors than to short-run traders. For example, the market's action at the close of last week was so strong that it is conceivable that the industrial average might be 5 points higher within the next several days—though it is equally possible that the 116-117 area now just overhead will prove sufficiently difficult to induce a period of congestion or minor reaction.



On principle, we do not like to reach for stocks in very strong, active markets. For the speculative-minded, we would favor purchases in the event of a prompt 3 to 5 point reaction from 115-117. For longer-term purposes, we think the more conservative policy would be to await the next full-fledged intermediate downturn—whether or not over the interim the industrial average rises to 120 or 125.



For those who acted on our earlier buying advices, our inclination is to let profits ride for the present on the possibility of further worth while rise. Even if this should not develop, the odds are against substantial early decline and in favor of further upside "tries" which would offer subsequent profit-taking opportunities at least as good as now exist. That, at least, is how we see it, though we don't hesitate to say that "calling" minor market movements presents far greater chances for error than do the longer movements.

Whether or not this week sees another strong upsurge in the market, the strength at the close of last week—bearing in mind that it preceded also the Columbus Day holiday—was a phenomenon so novel that it is worth passing notice. For a very long time, the tendency of traders had been to lighten up over each week-end. After all, there is a war going on; and ever-present possibilities of seriously adverse news developing over an extended week-end. Whether the news of the moment was favorable or not, the inner feeling of investors and traders was that we were sitting on a volcano which could explode at almost any time.

Psychologically, it is possible that Saturday, October 10, may prove to have been a very significant market milestone. For the first time in Lord knows when the market approached a two and one-half day week-end without any visible evidence of cautious allowance for what Hitler or the Japanese might do, or what new sensations might come out of Washington, before trading was resumed. We think that speaks volumes for the radical improvement of investment and speculative confidence in the present war outlook and in the prospects of American corporate enterprise.

Many people continue to demand "reasons" for the market's rise. We answer with a certain humility—for nobody can forsee the longer future and never can one be sure of just what it is that the market is discounting. We would say that the first phase of recovery—from April 28 low to mid-July high around 109—originated from the previous over-discounting of adverse factors and the resultant thoroughly "sold-out" technical position. Following the July high, we had some ten weeks of narrow fluctuation in the average, with selective strength in a minority of issues and especially in rails. Over the past three weeks or so it became a quite "different" market, much less selective, much more active. Undoubtedly this recent phase is influenced by current news indications that Hitler's 1942 capaign is verging on another failure—which makes a United Nations victory almost a certainty—and by the encouraging nature of the Senate's tax-bill vote.

But there is nothing like a rising market to develop its own support. Holders of stocks have been sitting tight. Potential buyers saw the market through the summer withstand several grave news shocks with only slight reactions. The "substantially lower" prices for which many waited just didn't come. People with idle cash were increasingly forced to question the wisdom of keeping it idle. If we lost the war, what good would the money be? If we win the war—as we will—there is a future for common stocks. We hear less and less about "post-war depression," more and more conjecture about a post-war boom. Even allowing for war taxes, current earnings of many companies are pretty good. Finally—and this is important—the impending change in the capital gains tax, together with high income levies, is for the first time in years making speculation for longer-term appreciation attractive to wealthy people.

Our view is that further recovery will be general, rather than selective; and that even the lowly utilities—relatively the most depressed large group—have a good chance of working higher. As heretofore, we favor peace-or-war stocks and peace stocks, over outright "war issues." On strength, we suggest that you weed out issues for which present earning power is mainly a war time phenomenon. —Monday, Oct. 12.

Investment Information, Please

By An Investment Trust Manager . . . A Banker . . . An Investment Counsellor

The Question:

What Is the Wisest Investment Policy for Me Now?

The problem is submitted, with accompanying list of holdings, by a mid-western business man, 46 years old, married, two children aged 18 and 14. His salary has covered living expenses amply in the past but he is now concerned by dividend reductions on some of the stocks he holds, while his living costs and taxes are rising. He owns his home, valued at $11,000, and is carrying $18,500 in life insurance. A cash reserve of about $2,100 is held in savings bank account for emergencies. He states his investment objectives as follows:

1. To sustain and increase income, to offset contraction of his spending power.

2. To have his principal keep pace with inflation and with tax requirements.

3. To create a backlog against possible decrease in or loss of earned income from present employment.

His security investments are entirely in common stocks, which cost a total of $78,650 and which have a present market value of about $67,506. The list follows:

100 American Rolling Mill
200 Commonwealth Edison
100 Columbia Broadcasting "A"
100 General Motors
200 Homestake Mining
100 Jewel Tea
100 Kennecott Copper
150 Lorillard
100 Glenn L. Martin
250 Nash Kelvinator
200 National Dairy
150 National Distillers
100 J. C. Penney
100 Pennsylvania Railroad
100 Sears, Roebuck
100 Standard Oil of Kentucky
100 Texas Corporation
100 Texas Gulf Sulphur
100 Western Union
125 Westinghouse Electric

A great many investors undoubtedly are confronted by problems generally similar to those presented by this case. Necessarily, opinions will differ as to what is the best course. We are presenting the proposals, of three anonymous investment experts: An investment trust manager, a banker, and an investment counsellor. Following the last plan, you will find comment on and certain criticisms of the proposals by one of this publication's own investment experts, Mr. J. S. Williams. It was to leave Mr. Williams ample leeway for criticism that we have "censored" the names of our three "Investment Information, Please!" guest experts.

Proposal No. 1—By An Investment Trust Manager

The absence of ownership of any bonds is noticeable in this investor's present setup. Although he has certain holdings equivalent to bond investments, these appear insufficient. Both for sound diversification and for patriotic reasons, I would suggest that at least $10,000 of his present portfolio be converted into U. S. Government bonds, Series "G."

The remainder of his holdings might well be kept in common stocks. His present list represents in the main a grouping of representative issues, with a few specialties mixed therein. Were we to invest the same amount of money with the objective stated, we would follow an entirely different policy of selection. We should try to take advantage of the numerous current opportunities to acquire common stocks at bargain prices—that is, at prices lower than the true value suggested by their asset position and earnings and dividend record.

We should try to select common stocks which would meet the following requirements:

1. Their present earnings should show a higher than average percentage on current price. That is, the price-earnings ratio should be low or reasonable.
2. Their 1936-1939 earnings should also show a higher than average percentage on current price.
3. Their net tangible assets, and even their net current assets, should be high in relation to current price.
4. Their current dividend return ought to be high.

The following list of 20 companies will meet all four of these requirements:

American Hawaiian S.S.	Intertype Corp.
American Seating	Libby McNeil & Libby
American Stove	Line Material
Apex Electric	McKesson & Robbins
Barker Bros.	Mohawk Carpet
Bulova Watch Co.	New Idea
Chicago Mail Order	Public Nat'l Bank
Continental Steel	Sharon Steel
Detroit Steel Products	Stewart Warner
Devoe & Raynolds	Young Spring & Wire

Most of these issues are not especially well-known or active but they all have a good enough market for practical purposes. Obviously, it is not possible to buy well-known and popular issues at bargain prices except under conditions like those in 1932. In dividing a cash fund among the list such as the above, some compromise might be made between (a) buying the same number of shares in each issue, and (b) putting the same amount of dollars in each issue.

The average price of these 20 stocks is around 12, average book value is around $26 per share, average net working capital about $15 per share, indicated average dividend about $1, 1942 earnings probably a bit over $2 per share. Thus this list can be bought for less than quick assets per share, at about 6 times current per share earnings and on a yield of about 8.3 per cent.

Proposal No. 2—By An Investment Banker

As a banker who has witnessed the vicissitudes of Wall Street for several decades, I am not too much impressed with your security portfolio, Mr. Investor.

This portfolio consists solely of common stocks. In normal times, it was considered wise to allocate funds for investment, as follows: 5% cash; 35% in bonds; 15% in preferred stocks and 45% in equities. However, these are abnormal times and, with the exception of cash, I would suggest a contraposition of these percentages. Why? Because the proposed tax bill will adversely affect earnings and dividend distribution while interest charges on funded debt may be paid before deduction of these taxes. True, high grade bonds are selling on a low yield basis today, but if one is willing to speculate in stocks, why not risk a certain amount in medium grade bonds selling at a discount?

The purchase value of your list was $78,650. It is now approximately $68,000; a paper loss of $10,650 or 13.5%. This was offset partly by the excellent income return received last year, namely, over $6,000, a yield of 8.90%. You will not fare as well this year nor for the duration.

While your list consists principally of representative stocks, it reveals inequalities, e.g.; 18.9% of your total portfolio is in two companies, namely, Sears, Roebuck and J. C. Penney. These companies are confronted with practically the same problems—higher operating costs and taxes, and securing sufficient merchandise. Eight and one half per cent is invested in one gold stock,—Homestake Mining. For the duration, the outlook for gold mining stocks is obsecured. In view of this company's earnings and dividend record, a modest amount may be retained. However, my paramount objection is the large percentage (8.5%) invested therein. This should be rectified. Over 13% of the funds is in Westinghouse Electric & Manufacturing Co. In other words, although your list of 20 stocks is diversified, you have 40% of your total invested funds in common stocks of four companies. This should be corrected!

Before proceeding further, may I ask Mr. Investor these questions?

(1) Have you established a cash fund to assure a college education for your two children? This will be an additional expense for at least the next eight years. You do not know how long you will be able to fill your present position, therefore funds should be provided for this impending additional expense. If necessary, sufficient securities should be sold at once to create this educational fund.

(2) Does your insurance program provide a policy for the payment of inheritance tax, etc. in the event of your demise? If not, additional insurance should be taken out to meet such obligations and prevent this increased drain on the residue of your estate.

My advice is to reduce your holdings of common stocks immediately, especially where amounts are disproportionate to the grand total. A conservative banker for obvious reasons, does not like to make recommendations, preferring to prescribe certain basic rules, as appended hereto, to be observed (*Please turn to page* 48)

Proposal No. 3—By An Investment Counsellor

As a preface to my analysis and specific recommendations, I should like to emphasize that today successful investment is a dynamic rather than a static problem. Securities which were well suited to your objectives a few months ago may now be unattractive for your needs. The vast conversion of industry illustrates that change is the one certainty under a war economy. Recommendations made in my report are based on the current outlook—and my first advice is not to freeze your investments while war changes their quality, yield and prospects.

Diversification: This investor's insurance policy of $18,500 represents a backlog for his wife and two children in case of death and also provides a fund, in its loan value or cash surrender value, in case of decrease or loss of his earned increment. His home, valued at $11,000, adds to this backlog. Generally speaking, life insurance is a hedge against deflation—real estate a hedge against inflation. Therefore, both should be maintained in a balanced portfolio. The $2,100 in the savings bank for emergency are, I assume, in accord with the investor's needs.

Diversification as to type of security shows a concentration of 100 per cent of invested capital in common stocks. This, is not in accord with the outlook today. The tremendous new taxes must all be paid before any earnings can be applied to common shares. In the first six months of 1942 taxes absorbed 73 per cent of corporate net income before taxes—as compared with only 52 per cent in 1941, 27 per cent in 1940 and 45 per cent in 1918 which saw the heaviest tax of the first World War. In reflection of lower earnings, dividend casualties were numerous and I expect that for the second half of 1942 total dividend distributions will be off 30 to 45 per cent.

In addition to the new high levies, I have taken into consideration the prospect of at least moderate further inflation in the near future when I suggest that diversi-

fication by type of security be changed now to include approximately 40 per cent in second grade rail bonds while 60 per cent can be maintained in the better equities represented in the list.

All bond interest is payable before taxes so the substantial tax burdens will not affect income from these obligations—particularly if they are limited to railroads where gross operating income is tremendous and where interest charges are currently being earned at least 2½ times. My recommendations have also considered geographical diversification among the carriers. Not only will the interest payments be more dependable in the coming year than will the dividends on the stocks sold —but they will be more substantial. As the general public realizes this situation, there should be an increased switching into these obligations with attendant price improvement.

Diversification by industrial group shows the following distribution in the portfolio:

Industrial Group	*Per cent Commitment*	*Industrial Group*	*Per cent Commitment*
Automotive	7.89	Merchandising	22.14
Aviation	3.24	Oil	7.24
Broadcasting	1.74	Railroads	3.29
Communication	4.35	Sulphur	4.83
Dairy	4.44	Steel	2.92
Electrical Equipment	13.14	Tobacco	3.35
Liquor	5.62	Utilities	2.89
Non-ferrous Metals	12.92		100.00

Of the groups to be reduced in size prompt attention should be given to merchandising, non-ferrous metals, steel and oil. Complete elimination of broadcasting, tobacco and electrical equipment is suggested. This will leave you with ample representation in a sufficient number of the more promising industrial groups.

Income: On the basis of 1941 dividend payments this portfolio yielded a return of 8.9 per cent. However, as 1942 has continued there have been dividend cuts among these holdings. As yet it is impossible to determine what future distributions are going to be until the final form of the tax bill is decided upon. In my measured estimate, taking into consideration the past dividend policy of these companies, latest earnings reports and the current outlook, at best the list will yield not more than 6 per cent in the coming twelve months. The changes recommended should result in a more dependable income of over 8 per cent—or a 2 per cent advantage gained through changes specified.

Sales Suggestions: American Rolling Mill saw earnings drop down to 81 cents a share in the first half of 1942 as compared with $1.97 in the same period of the prior year. Increased labor costs, higher operating expenses and the heavier tax bill have brought about a declining earnings trend. Directors have realized the need for conserving cash and reduced the latest quarterly payment to only 20 cents. In 1941 the company paid $1.40 and this year dividends will probably total 90 cents—but in the next *(Please turn to page 48)*

Comment and Critique

BY J. S. WILLIAMS

Reduced to plain language, the investor in this case wants increased investment income return, capital appreciation and safety. The truth is, that is more than any investor has any chance of getting. As with the great majority of investors, the main objectives are to some extent conflicting. Therefore, compromise cannot be avoided.

It is to be noted that this investor—not so far from 50 years of age, with a wife and two children—lists the safety backlog last among his three objectives. Very likely safety is more important in his own mind than the order of listing would seem to indicate. But since he himself gives increased income and appreciation precedence, our three guest investment experts have been justified in shaping their proposals accordingly. It is therefore not surprising that all three proposals approach "speculative-investment" much more closely than they approach "safety first" investment.

My first criticism must be of the investor, rather than the experts. If I were in his identical position, I would reason that higher income taxes will certainly reduce my total spendable income considerably in any event; that the major part of the answer to the problem must be represented by adjustment of the family budget; and that, within the bounds of prudent investment, the smallest part of the answer can be found from adjustment of security holdings. That being so, and bearing in mind obligation to wife and children, I would put greater emphasis on safety than this investor has done in stating the order of his objectives.

I myself would prefer to have not less than a third of such a fund in Series "G" war bonds, and my long range objective would be to convert—at higher prices—a still larger proportion of my "speculative-investment" holdings into high grade, fixed-income securities. But the investor, in the final analysis, must make his own choice and his own compromise between safety and speculative potential as to income and capital values. The objectives having been stated as they are, I merely note—rather than criticize—the fact that two of the guest experts exclude war bonds or other "gilt-edged" issues, and that the third, the investment trust manager, suggests only that $10,000, or roughly 15 per cent, of the present portfolio be converted into Series "G" war bonds.

The equity selection by the investment trust manager is "unorthodox" but obviously ***(Please turn to page 49)***

IS INFLATION STOPPED?

What the New Controls Can and Can Not Do

BY WARD GATES

FOLLOWING swiftly upon the heels of the enabling legislation, President Roosevelt's momentous executive order of Oct. 3 has set up the machinery for war time economic stabilization with Supreme Court Justice Byrnes in the driver's seat.

This goes far beyond the matter of farm prices and wage controls, over which Congress had recently been fighting. Under the President's sweeping order, ex-Justice Byrnes is directed to:

"Formulate and develop a comprehensive national policy relating to the control of civilian purchasing power, prices, rents, wages, profits, rationing, subsidies and all related matters."

Look over that again. Its inclusive nature has startled many of the gentlemen of Congress—and well it might.

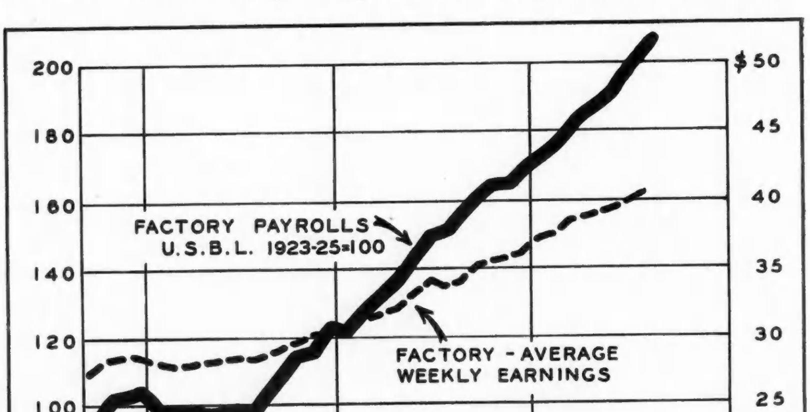
Note that Byrnes is not directed merely to administer and coordinate the stabilization program. He is ordered to "formulate and develop" it. This is the most sweeping delegation of executive power to a single man since Donald Nelson was made chief of the War Production Board.

In effect, Byrnes becomes a Deputy President in supreme charge of the key controls of our civilian economy. He is to have the consultive and administrative aid of a Board of Economic Stabilization made up of the heads of the Treasury, the Departments of Labor, Agriculture, and Commerce; the OPA, the Federal Reserve System, the War Labor Board, the Bureau of the Budget; and two representatives each—yet to be appointed—of labor, business and farmers. Observe—for further discussion hereafter—that Paul McNutt, head of the Manpower Commission, is not included.

Now to begin with, the machinery for economic stabilization is one thing and the effectiveness with which it it utilized is something else again. Mr. Nelson had adequate W P B machinery but let too many others begin pulling the levers and pressing the buttons. Ex-Justice Byrnes starts with a great advantage. He has an intimate knowledge of the wheels of government and politics. If anyone can work smoothly with Congress, the White House and the various agency heads, it is he. He is not identified in the public mind with Business, Labor or Agriculture. As regards the impartial fairness of decisions affecting differing economic groups, probably no one else could command greater trust.

Flexible Controls

Nevertheless it must be emphasized that this stabilization program is "flexible"—which calls to mind the chief weakness long evident in the War Labor Board's so-called wage stabilization policy. It is not the anti-inflation plan long advocated so persuasively by Bernard M.

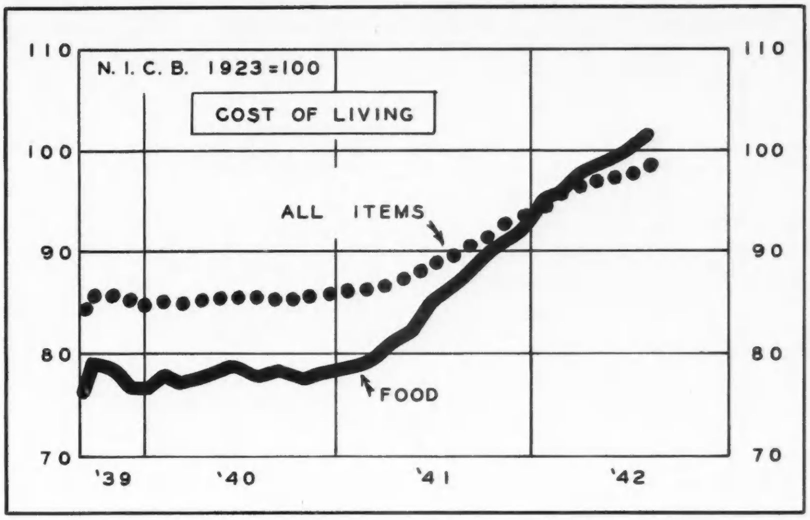


Baruch. It will not "freeze everything;" nor will it necessarily result in rigid ceilings. Consider the following three "loopholes":

1. The enabling law permits—and invites—the raising of farm price ceilings if necessary to encourage essential production or to meet increased farm labor costs.

2. The President's order permits wage increases above the level of Sept. 15 for any one of four specific reasons (a) to correct maladjustments or inequalities; (b) to eliminate substandards of living; (c) to correct gross inequities; (d) to aid in the effective prosecution of the war.

3. Byrnes and his "cabinet" can offer advice on fiscal policy, but only Congress can enact taxes and/or a compulsory savings plan. These are the most basic of all anti-inflation controls. Unless excess consumer income is "mopped up" by taxation or neutralized by an adequate flow of savings into War Bonds, all the other anti-inflation moves will represent an attack on the symptoms of the trouble rather than its cause.



Take note especially of the leeway for higher wages. It leaves the unions with arguments just as plausible as ever before. A case can be made out for "inequality" unless and until all wage standards in all industries equalled the highest prevailing in any industry. That, of course, would mean a huge further rise in total wage income. And what is a "substandard of living"? Leon Henderson and others have stated flatly that our national living standard—now maintained importantly out of previously accumulated inventories of goods—must be drastically lowered. If that is so, the implied promise that wage workers have a right to hang on to what they and the politicians consider a "decent" living standard is sheer nonsense. Finally, wages may be raised "to aid in the effective prosecution of the war." Well, you can make almost anything you please out of that.

Paradoxically, wage and farm price stabilization—to the degree that they are effective—will magnify the even more basic problem of "manpower control." Production by the farmers of a huge volume of foods is even more essential to the war effort than the matter of food prices. There is already a serious shortage of farm labor and at the same time the W P B is planning a further and deep cut in the output of labor-saving farm machinery. Price control will not ease this problem but tend to aggravate it. It will be much harder for farmers to maintain production next year than this. The remedies under discussion at Washington include subsidies to the farmers to meet higher labor costs and Government compulsion to keep present labor on the farms and to put additional labor—chiefly women and young children—on the farms.

A farm labor subsidy would be inflationary. The cost would be borne by the public as taxpayers, rather than as consumers. It would take a subsidy of staggering amount to bring about anywhere near a parity between farm wages and industrial wages, thus removing the present strong incentive for shift of farm workers to industry.

These problems must be stressed because manpower and civilian production relate directly and closely to the threat of inflation. When supply of anything is short and demand is large, you have increasing inflationary pressure. That applies to manpower, jobs and wages as much as to commodities.

Already employers of labor are frantically seeking clarification of some aspects of the President's executive order as it concerns wage and salary stabilization. They don't know how they stand, for example, on existing bonus incentive plans for workers and sub-executives. They are well aware that without job freezing—which at best is weeks or months away—the effect of wage and salary ceilings will immediately be to aggravate the present continuous shift of wage and salary workers from low-paid jobs to jobs offering higher pay. Mr. McNutt will get exactly nowhere in denouncing this as labor "pirating." As long as people have ways of finding out that different jobs pay more than their present jobs, and as long as they have freedom of job choice, they will gravitate into the best-paying jobs like flies to a honey pot.

Is the upward spiral of wage income stopped? Hardly! A few days *after* the President's executive order was issued, the War Labor Board granted a wage increase of 4½ cents an hour to the already high-paid workers of the Chrysler Motor plants. Of course, there were "special reasons" in this case. There were special reasons in all the preceding cases. There will be special reasons in future cases. The Board will go on adding something to the bottom, taking nothing from the top.

It boils down to this: Unless and until there is effective control of jobs, the total income of wage workers will continue to increase, the labor-shortage plight of the farmers will remain a potent source of political disunity, there will be increasing threat of food shortage, and genuine stabilization of farm prices on a basis good for the duration will be either very difficult or impossible.

The most feasible alternative to a direct attack on inflation by means *(Please turn to page 50)*

★ NEW FEATURE

Securities Disturbing Investors

A DIVIDEND is cut drastically or omitted completely . . . a new earnings report shows a sharp slump in profits . . . a governmental restriction becomes operative . . . instantly some securities are affected and a new source of worry bears down on the investor. The purpose of this department is to dig into situations which are disturbing you, to find the facts behind them and to tell you whether to eliminate or retain the security involved. As a subscriber you are privileged to write to the editor of this department asking about any one stock or bond which is disturbing you. You will receive a personally dictated reply to your problem and the three issues concerning which most inquiries are received will be treated comprehensively in each edition of The Magazine of Wall Street.

By J. S. Williams

Niagara Hudson Power 5% First Preferred

On September 24, the directors of Niagara Hudson Power Corp. did not declare the $1.25 quarterly dividend which would normally be payable November 1 on the 5% first preferred stock. This was the first dividend interruption since the organization of the present corporation on February 1, 1937. The stock promptly went to a new low of 37 for the year as compared with a high in February of 69½. Many perturbed shareholders have written to ask whether to sell now or hold for further recovery from present prices of 40¾.

Dividend omission is attributable to three factors: (1) the Securities & Exchange Commission has ordered the company to simplify the corporate structure; (2) the Federal Power Commission has called for a write-down of nearly $16,000,000 in the accounts of Niagara Falls Power, a major subsidiary of Buffalo, Niagara and Eastern, which, in turn, is a subsidiary of Niagara Hudson Power; (3) uncertainty exists as to the amount of Federal taxes.

Prior to the order of the S E C, Niagara Hudson Power considered itself immune to the Public Utility Holding Company Act since it is an intra-state system. Because United Corporation owns 23% of Niagara's outstanding voting securities, the S E C contends that the latter company is under the jurisdiction of the act. On October 6, Niagara Hudson Power filed a brief stating that the S E C's orders were "contrary to public interest" and that "the operating properties which comprise the Niagara Hudson system are being utilized to their maximum practicable combined efficiency in the supply of electricity and gas to vital war industries as well as to regular customers." The brief expressed the right to contest the constitutionality of the application of the Holding Company Act. While no forecast is possible as to the outcome of hearings beginning this month, drastic adjustment of the corporate structure is likely to be postponed at least for the time being, in our opinion.

Niagara Hudson Power is the largest distributor of electric power in the world and the outlook for the heavily industrialized area it serves is promising. For the twelve months ended June 30, 1942, the company earned $18.52 per share on the first preferred as compared with $24.50 in the previous twelve months. While taxes and increased expenses will continue to reduce earnings, we expect that the $5 dividend will be earned this year by a wide margin, probably more than twice over. A basic uncertainty affecting the issue has been the St. Lawrence power project. This would be a source of direct competition with Niagara Hudson Power and might eventually cause public sale of a sizable proportion of its properties. Because of this it is important to look at the actual property values behind this first preferred stock. Our study is reassuring to the stockholder since there is ample protection and the stock is entitled to $100 per share in liquidation.

Conclusion: It is our opinion that pessimism has been overdone as reflected in the market price for this stock. Retention is advisable with prospect of further recovery.

Armour & Co. of Illinois $6 Prior Preferred

Action of Armour & Co. of Illinois, second largest among meat packers, in omitting dividend action on the $6 prior preferred stock on September 2, jarred many shareholders. They had expected the regular $1.50 payment which had been made in the previous four quarters. Reaction in the stock carried it down to a low of 42 in September, compared with a high of 67½ in February. Currently it has advanced back to 46⅞.

Armour represents a striking example of the sudden manner in which a situation can change today. In their fiscal year ended October 31, 1941, the company earned $21.30, compared with $8.56 in the previous year. Earnings were showing further growth when the O P A set

price ceilings over retail and wholesale cuts of meat—but did not establish ceiling prices for livestock. Abnormal demand for meat, both for the military forces and for consumers with increased incomes, caused livestock prices to rise, squeezing the profits from Armour's business since retail and wholesale prices were fixed. The company's meat business speedily changed from a profit to a loss.

In explaining the dividend cut, E. A. Eastman, president, states: "Under the urge of the U. S. Department of Agriculture the nation's livestock raisers have greatly increased their production of cattle and hogs. Marketing is already at a record rate and the industry will be called upon to slaughter and process and deliver more cattle and hogs than ever before. This will call for considerable additional working capital and consequently it becomes important to conserve earnings and in every way maintain a sound credit position. In view of uncertainties in the immediate outlook occasioned by meat price ceilings, directors decided to take no dividend action on the $6 prior preferred stock."

Another reason for conserving cash is seen in new taxes. It now looks as though the company will be subject to the higher 1942 rates on the ten months of its fiscal year which fall within the 1942 calendar year. With passage of the dividend, arrears increased to $22.50 per share. No disbursements can be made on the 7% preferred stock or the common stock until these arrears are paid.

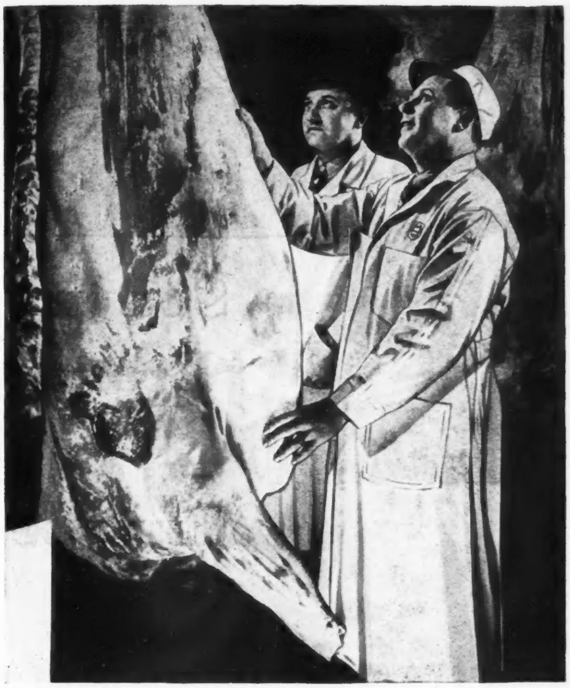
The company does not issue interim earnings reports but we estimate that earnings in the first six months of its fiscal year were unusually good. For the full year which ends October 31, 1942, earnings will be well below the $21.30 earned in the previous year—but should still be well beyond annual dividend requirements for the $6 prior preferred.

Conclusion: The bad news is out, the $6 dividend has been passed, so we believe that future developments are likely to be more favorable. Appointment of the capable Justice James F. Byrnes to head the nation's economic stabilization augurs well for eventual ironing out of inequalities in emergency price ceilings. In our opinion, Armour & Co. of Illinois $6 prior preferred merits further retention with a strong likelihood of further price recovery in the coming months. For those investors requiring continuous dividend income a judicious substitute may be found in the article "Six Securities Yielding 8% with Ample Coverage" beginning on page 654 of our October 3 issue.

American Woolen Company 7% Preferred

When the earnings statement of the American Woolen Company for the first half of 1942 was issued at the beginning of August, it was a distinct shock to stockholders. It revealed that net profit had dropped from $14.01 a share on the preferred stock for the first half of 1941—down to only $4.74 this year. The stock which sold at 76⅜ in January reacted to a low price of 52 on August 10. Disturbed investors who wrote to us then were advised to retain the issue. Now that it has recovered to 59 they ask whether to hold further or to sell.

Two factors should be weighed in considering first half earnings: (1) The company set up a contingency reserve of $1,000,000 in the first six months. Had this sum been applied to earnings it would have added another $3 a share to net. (2) In making provision for Federal taxes, 83% of income was set aside. It appears as though an 80% tax ceiling will be established. If so, this will permit a reduction in the $13,100,000 tax reserve, which we estimate will add $1.41 per share to net.

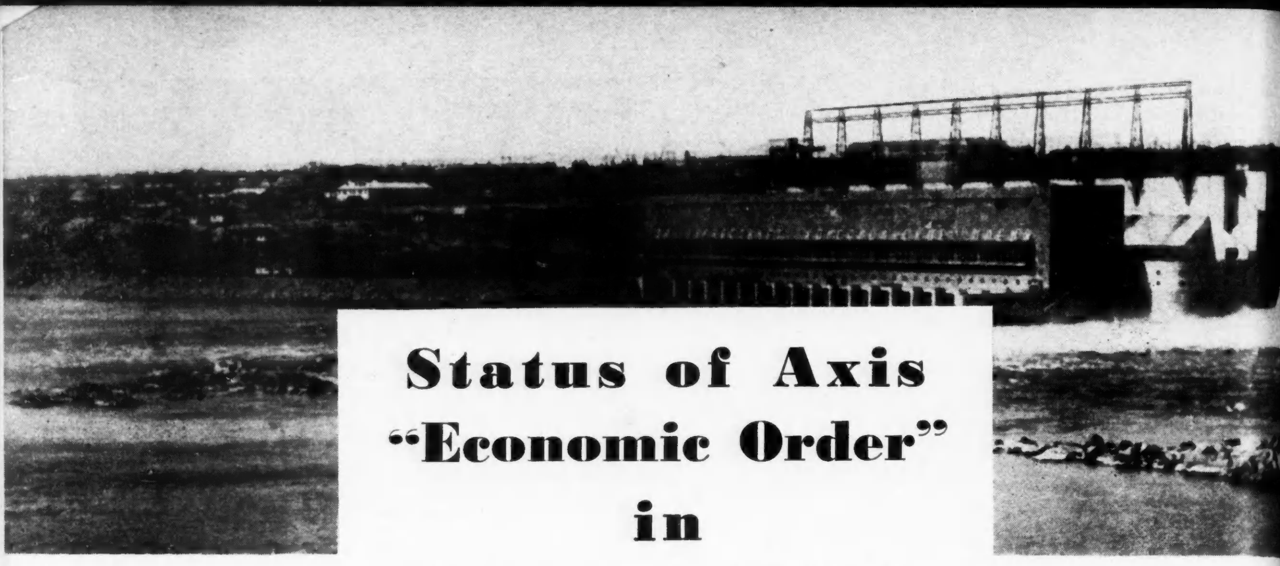


Abnormal demand for meat has caused livestock prices to rise, squeezing the profits from Armour's business, since prices were fixed.

Gross earnings were up over 65% in the first half and for the duration the company's enormous plant capacity will be almost fully utilized. Offsetting loss of civilian business are the huge military demands, such as the order September 18 for 1,500,000 army blankets and the order on September 24 of $6,400,000 for olive drab. The company is the world's largest manufacturer of worsteds and woolens and its management is highly regarded.

Last year the company paid $12 a share in dividends, cutting accumulated arrears to $76 per share. This year it has paid $4 thus far. The directors have purposely decided to avoid fixing any set dividend policy. A study of the balance sheet shows why this is advisable. While working capital is strong with $88,000,-000 in current assets versus $47,000,000 in current liabilities—the company might find its liquid cash position inadequate in any exigency. Balance sheet figures show cash of only $6,600,000 and inventory of $60,000,000; while on the other side of the ledger are notes due banks of $20,000,000 and tax reserves of $19,000,000.

Conclusion: In our opinion the company will earn about $10 a share for the year compared with $7 annual dividend requirements. This still leaves ample coverage. Selling more than 17 points below the 1942 high, we expect better prices within the next six months, while dividend payments should continue generous in relation to current market quotation. We advise retention.



Status of Axis "Economic Order" in Europe and Asia

BY V. L. HOROTH

IT has become generally accepted that the main reason for the attack on the Soviet Union in June, 1941, was the planned incorporation of the Ukraine and the Near East into the German economic orbit. The purpose of this step, apparently decided upon at the time when we had begun to consider lend-lease aid to Great Britain, was to obtain for Germany additional resources to offset the prospective flood of war material from America and in general to prepare for a "war of exhaustion." The German intention probably was to seize the Ukraine and the Caucasian wheat and oil areas in a few months time and to restore them to production before threatening the United Nations' position in the Near East.

If any such plan existed, the Germans have been, of course, hopelessly behind schedule. They have miscalculated the speed with which America would shift to output for war. They have underestimated the extent to which the Soviet Union's industrialization has caught up with that of the Reich. Above all, however, it has been her awe-inspiring courage and spirit that has enabled new Russia to resist for sixteen months the desperate efforts of the Germans to cripple the Soviet economy.

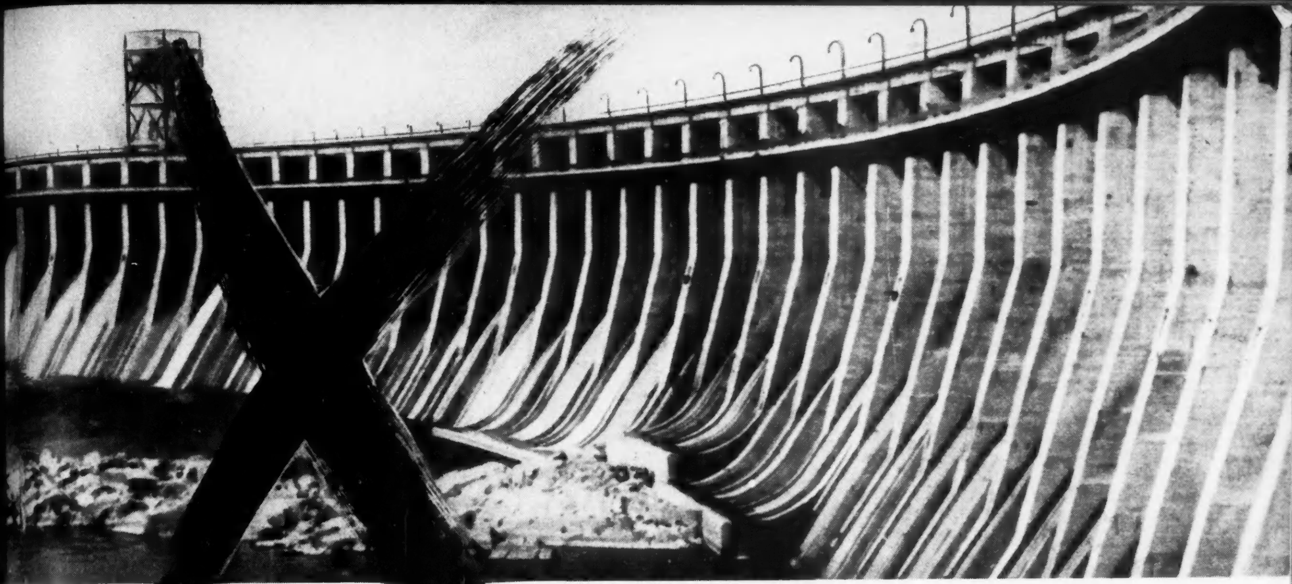
What was the cost and the gain to Germany of the Russian campaign? Did the new conquests strengthen the German economy for the struggle with the Western Powers which is becoming inevitable now that the North American war industries are coming into full production? Or was the German economic and military strength permanently weakened by the desperate attempt to deal a mortal blow to Russia? Both Hitler and Goering, as evident from their recent speeches, would like the German people to believe that the struggle was worth it. Hitler, in particular, insisted that the capture of the Ukraine and the North Caucasus has made Continental Europe invincible, that its food and raw material problem are being solved, though in the same breath he confessed that much would depend upon the rebuilding of "thousands of destroyed factories, canneries, and flour mills" and the replacement of "thousands of damaged and removed tractors."

The cost to Germany of her conquests in Russia can be only guessed at. Compared with the earlier venture, the Russian campaign has taken a heavy toll of life. The maintenance of a huge army in the field has put a heavy burden on the industrial plant, forcing it to operate at maximum capacity without any let-up for repair or retooling and thus bringing it decidedly nearer to the breakdown stage. The Russian war has also cut down the reserves of manpower, necessitating labor conscription in occupied countries. It has reduced available supplies of foodstuffs and of raw materials, and, as many observers insist, of petroleum in particular, thus forcing the entire Nazi economy on a hand-to-mouth basis to an extent not experienced hitherto in this war. The transportation situation, already acute, has become critical, and in general the signs of tension have multiplied throughout the German economy.

Axis' Russian Campaign Proves Costly

Unlike the earlier campaign, the war in Russia has not brought any quick dividends in the form of loot, confiscation of private property and other tributes which in the earlier years offset the cost of military ventures. Thus for the first time the German people have become conscious of the costs and burdens of war.

The natural resources which the Russians could not destroy or take with them, now in the possession of the Germans, are rather important from the long-range viewpoint. Beside the Donetz coal mines, some of which were flooded, they include valuable iron ore deposits at Krivoi Rog and in the Crimea, the Ukrainian mercury



Sovfoto

The war in Russia has brought Hitler no quick dividends in economic booty. Retreating Reds moved or destroyed a vast total of industrial and farm equipment. Highlight of this "scorched earth" policy was destruction of the mighty Dniepostroy Dam with heavy charges of explosives in the spot indicated here.

deposits and the oil fields of Maikop which, though small, produce petroleum especially suitable for aviation fuel. The capture of the manganese mines at Nikopol came at an opportune time since the reserves accumulated prior to 1939 were reported to be running low. The Germans also occupy the entire "black earth" wheat region of the Ukraine and Russia Proper, which used to feed the industrial regions of the north, and the Kuban wheat belt in the Caucasus, the surpluses of which in turn supplied the industrial regions of Trans-Caucasia. The Germans also hold practically all the sugar beet and most of the fruit, tobacco and oil seed producing areas of the Soviet Union.

Undoubtedly, some of the mineral wealth is already being exploited for the benefit of the Reich's war industries, but the restoration of the huge heavy industries of the Donetz Basin is still another story, granted even the organizational genius of the Germans. Not only is there probably a shortage of fuel, with coal mines flooded and the huge Dniepostroy Dam only partially repaired, but the most important plants have been either destroyed or dismantled by the Russians, to be reassembled in the new industrial areas east of the Volga.

Equally improbable is it that the Germans have been able to cultivate effectively the occupied areas where mostly children and older people were left. The Russians are reported to have drafted into the army or resettled between 20 and 25 millions out of the normal population of about 65 millions in the occupied regions. Moreover, mechanization of agriculture has been probably most advanced in the occupied territories, nearly half of the 500,000 tractors used in the cultivation of the Soviet Union in the past few years being located there. The North Caucasus region alone had some 46,000 tractors, and 18,000 combines in 1938 (and undoubtedly many more by 1941), and some 80 per cent of the spring sowing and Fall plowing was usually done by machines. In contrast, most of the spring sowing in the occupied regions was done this year by hand. As a matter of fact, it is a question whether the Germans have not only enough oil to operate the farm machinery left behind by the Russians, but even farm animals to help out with the cultivation.

The exploitation of the Russian conquests is definitely a long range project, requiring shifts of population, the replanning of transportation facilities for the east-west traffic, and, of course, the availability of several hundred thousands of tractors and other farm machinery. Germany would probably like nothing better than to pause in the fighting in order to be able to consolidate her Russian gains and to relieve the growing burden on her war economy.

Another front or the continuation of large-scale fighting in Russia would not give Germany such a respite,

Estimated Continental European Self-Sufficiency in Foodstuffs between 1936 and 1938

Country	Degree of Self-Sufficiency	Country	Degree of Self-Sufficiency
Deficit Countries:		Surplus Countries:	
Norway	43	Estonia	102
Belgium	51	Denmark	103
Switzerland	52	Poland	105
Netherlands	67	Latvia	106
Finland	78	Yugoslavia	106
Greece	75	Bulgaria	109
Austria	75	Lithuania	110
Germany	83	Rumania	110
France	85	Hungary	121
Czechoslovakia	95	Continental Europe*	
Sweden	91	Deficit Countries	84
Portugal	94	Surplus Countries	108
Italy	94		
Spain	99	Total	91

* Estimated by the Office of Foreign Agricultural Relations as the averages of the country percentages, weighted by population numbers as well as national levels of calorie consumption.

Exports and Imports of the Areas Conquered by the Japanese since December, 1941*

Averages 1937-38-39

(All Figures in Millions of Dollars)

Exports	United Nations	Axis Countries	Total
Rubber	231	90	321
Rice	99	40	141
Petroleum & Products	117	10	127
Tin	90	27	117
Sugar	81	9	90
Copra, coconuts and palm products	44	22	66
Tea	24	7	31
Tobacco	5	15	20
Lead and Zinc	...	..	11
Chrome and Iron Ore	...	..	10
Tungsten and Manganese	...	..	9
Grand Total			1,157
Imports			
Textiles	91	74	165
Machinery and motor vehicles	100	29	129
Other steel mill products	26	26	52
Chemicals and products	26	18	44
Grand Total			741

* Burma, Thailand, French Indo-China, British Malaya, The Netherlands East Indies and the Philippines.

and the consolidation of the gains, so prominently mentioned in Hitler's last Sportspalast speech, would have to wait. In the latter case the Ukraine and North Caucasia would produce just about enough food for the German armies that must continue to be stationed there and to fight if the Russians are to be prevented from recovering their strength.

Even more difficult than for Germany, is it to draw a balance sheet of the gains and costs of Japan's newly conquered empire. With the exception of propaganda reports and of the observations of the returning Americans, little information is available as to how far the organization of the "Co-prosperity area" has progressed. Apparently, the development companies, similar to those operating in Manchukuo and Northern China, are taking over the properties of the former rulers, and the banks have reopened as branches of Japanese banks.

It is rather ironic that Japan has drawn in the conquered countries many products in which she was already self-sufficient, such as rice, sugar and tea. As for rubber and tin, there was enough in Indo-China and Thailand alone to supply the entire Japanese industry. Thus, many products, rubber, sugar, tin, vegetable oils, coffee, tea and spices, will be of little use to Japan, or, for that matter, to the people in the occupied territories. The inability to sell these products in world markets for industrial goods and foods must lead to a sharp curtailment of the purchasing power and the standard of living in the occupied areas.

At the same time, the shortage of textile fibers, cotton and wool, has remained practically unrelieved. With only about one-fourth of her requirements met, Japan will have to continue to clothe her own people and those in the occupied territories in synthetic fabrics, until perhaps some day enough land in the Philippines and the Netherland Indies and Malaya has been shifted from sugar and rubber to cotton. The self-sufficiency in cotton, is for example, scheduled to be achieved within five years.

To restore the former prosperity of the countries like the Philippines or Malaya within the "Co-prosperity Sphere" will require, to say the least, complete reorganization and replanning—a matter of years rather than months. Thus many gains of the Japanese conquest must remain elusive for a long time, and the best proof that this is so, is that the shortage of goods of any kind has grown even more critical in Japan proper since the outbreak of the war with the Western Powers.

Nevertheless, Japan has made some definite gains, and the most important of them from the viewpoint of immediate warfare has been the capture of the Netherland Indian and Burmese oil fields, the combined capacity of which was normally about 200,000 barrels a day. The present production is reported to be about 50,000 barrels a day, equivalent to the Japanese pre-embargo imports from California. This means that oil supplies for the Japanese Navy should be no problem. Apparently some of the Sumatran oil fields were captured undamaged, while the North Bornean oil—which can be used as fuel without refining—lies close to the surface and is relatively easy to get. The Japanese were preparing for just such an emergency by importing large quantities of oil field equipment in 1936-38.

In view of the relatively slender iron resources of the Japanese Empire and the inaccessibility of American scrap iron, the capture of the Philippines and Malayan iron ore mines, whose combined pre-war output was about 2,000,000 tons, was another important windfall, as was also the acquisition of varied ferro-alloys and nonferrous metals resources. Japan now controls the Philippine and Netherlands East Indian manganese output which came to about 40,000 tons (1940), the Philippine chromite mines which yielded (1940) about 80,000 tons of metal, and tungsten and nickel from Indo-China. There are also about 90,000 tons of lead now available from Burma and 70,000 tons of zinc from Indo-China and Burma. All these supplies, provided the mines were captured undamaged, will about replace the pre-war imports. There is more tin available in the "Co-prosperity Sphere" than Japan can possibly use, even if most of the dredges in Malaya and the Netherlands East Indies are out of working order.

In the case of copper and coal, the conquest has contributed little. This is important because the Empire's heavy industries must continue to be dependent upon domestic, Manchukuoan, Korean, and North Chinese coal, which is not particularly good for coking. The output even now probably is not any larger than 100,000 tons a year. Hence, the limitations upon Japanese heavy industries have not been removed. The shortage of power fuels should also be felt by the aluminum industry, now able to exploit Netherlands East Indies bauxite in addition to Korean and Manchukuoan ores.

In the way of industrial capacity, the newly conquered territories have added very little, and hence most of the raw materials will have to be hauled to Japan proper for processing, over distances ranging from 1,200 in the case of Philippines to 4,000 (*Please turn to page* 47)

Eight Companies With Long Dividend Records

Are They Secure Today?

BY J. C. CLIFFORD

Borden Co., second ranking organization in the dairy products field, has paid some dividend in every year since 1899. Fluid milk and cream provide about one-half of total sales, with manufactured products, including the important cheese business, also contributing substantially to gross volume. Operations are conducted throughout most of the United States, and also in Canada; while certain items are also marketed in England, on the Continent (under peace-time conditions), and in South and Central America. Normally, foreign sales account for about 10 per cent of company earnings.

Because of the character of its operations, Borden has been a consistent money maker over the years. Profits on the capital stock recovered from $1.06 per share in 1933 to $1.88 in 1941, and, despite higher costs and taxes, dropped but slightly in the first half of this year to $0.77 per share from $0.80 in the corresponding months of 1941. Although interim sales figures were not made available for the 1942 half-year, volume was undoubtedly higher, in view of the heavy war-time demands, particularly for powdered and evaporated milk and cheese. Military requirements for various food products, as well as augmented consumer income, will assure enlarging sales volume for the duration.

Augmented consumer incomes, plus military requirements, assure continued enlarging sales volume for Borden.

Establishment of price ceilings will not, it is believed, have any important effect on profit margins, as such ceilings will influence commodity costs and selling prices in about equal ratio. Dividends to date in 1942 consist of three payments of $0.30 each, as against $1.40 from 1938 to 1941, inclusive. Financial position and trade outlook suggest that disbursements on the capital stock will be continued on the basis prevailing during the present year, at least over the near future.

Cannon Mills Co., with its predecessor organizations, possesses a record of continuous annual disbursements on capital stock which extends to 1890. This company is the largest producer of towels in the United States, accounting for about one-half of total production. Output also includes a wide range of textiles, among which sheets and pillow cases are conspicuous. The company operates eleven plants in North and South Carolina.

The corporation does not publish interim reports with respect to earnings. It is understood, however, that over 40% of capacity has been diverted from production of ordinary civilian merchandise to textile goods directly utilized for military needs. Indications are that over-all sales for 1942 will be somewhat in excess of the aggregate of $65,000,000 reported last year, the latter comparing with $47,500,000 in 1940. Costs have been rising in the past few years, amounting to 89% of net sales in 1941, as against 83% in the previous year. The higher expenses, rather than increased taxes, were responsible for the decline in earnings to $3.16 per share of capital stock from $3.88 in 1940.

Balance sheet as of December 31, 1941, disclosed a satisfactory condition, although cash and marketable securities of $6,450,000 were well under notes payable amounting to $12,000,000, the latter maturing during 1942. No information is available with respect to the manner of liquidating, or possibly extending payment of this obligation, but in view of the fact that no funded debt was outstanding at the last year-end, funding of a portion of this indebtedness is a possibility.

Dividends are being paid at the rate of $0.50 quarterly, latest payment being as of October 1, 1942, and comparing with $2 paid each in 1940 and 1941. Lower net income is probable for 1942. Pending clarification of the company's immediate fiscal problems, some re-

duction in future common payments is a possibility, but complete suspension appears unlikely.

Corn Exchange Bank Trust Co. (New York) has paid dividends in each year since 1854. This institution, which engages in general commercial banking, foreign and trust business, operates 74 branches in the five boroughs of New York City.

Income from securities holdings and transactions, rather than that received from commercial accommodation, has provided by far the larger portion of this bank's revenues in recent years. Operating earnings actually advanced in 1941, but write-down of certain assets reduced profits, after adjustments, to $2.98 per share from $4.72 in 1940. Indicated earnings for the first half of 1942 were $1.49 per share, compared with $1.41 in the six months ended June 30, 1941. As of June 30, last, holdings of U. S. Government securities comprised 47% of total resources, as against 40% on the same date in 1941.

The small loan position (about 6% of resources) accentuates the large dependence of this institution upon investments as a source of revenue. With a steadily increasing proportion of cash resources being employed in purchase of low-yield Government obligations, and with securities profits perhaps rendered more difficult by the probability that peak prices of high-grade bonds will not again be surpassed, but little earnings improvement is in prospect for this bank.

Meanwhile, the conservative capitalization suggests that dividends may be continued on the basis of $0.60 quarterly that has prevailed since November 1, 1941, following the reduction from the $3 annual rate which had been in effect since 1934.

Insurance Co. of North America has paid dividends without interruption in every year since 1874. This company began business as an association in 1792, and was incorporated under Pennsylvania charter two years later. Various types of insurance are written, of which fire risks contributed 43% of net premiums in 1941, with marine (both ocean and inland) accounting for 37%, and motor vehicle, 12%.

Since 1936, underwriting profit has comprised but a small proportion of total earnings, by far the greater portion being furnished by investment income. Total profits in 1941 were equal to $4.93 per share, compared with $4.68 in the preceding year. Heavy marine (war risk) underwriting losses sustained in the first half of 1942, with the total underwriting loss amounting to $8,593,000, contributed to a loss of $5.83 per share, as against a profit of $1.07 per share for the similar 1941 months. Investment income and other revenues showed gains for the period. It is uncertain, however, whether income from securities transactions will be sufficient to offset the underwriting losses which will unquestionably be reported for the full year.

Although the approximate extent of underwriting losses to be sustained in the first half of this year was doubtless known to the directorate, the customary semi-annual dividend of $1.25 per share was declared June 9, payable July 15. Payments, including extras, amounted to $3 in 1941, while disbursements of $2.50 per share annually had been made from 1935 to 1940, inclusive. Cash holdings on June 30, last, after provision for the July 15 dividend, were equal to over $5.60 per share. It seems probable, therefore, unless further substantial underwriting losses are incurred, that the prevailing dividend will be maintained at least for the current semi-annual period.

Norfolk & Western Railway Co. has maintained annual distributions on its common stock since 1901, with amounts ranging from $2 in that year to a maximum of $16 in 1937. This carrier operates about 2,200 miles of road through the bituminous fields of Virginia, West Virginia and Kentucky, northwestward to Cincinnati and Columbus and eastward to Norfolk. Of 1941 railway operating revenues, over 94% were supplied by freight. Soft coal provided more than 68% of freight revenues.

The importance of soft coal as a revenue factor is therefore manifest, particularly in view of the shortage of colliers for the trans-shipment of coal to northeastern points. Shipments of coal from the Pocahontas fields to New England and nearby points by rail have increased extensively in recent months. Oddly enough, this operation, insofar as Norfolk & Western is concerned,

Eight Companies with Long Dividend Records

Company	Average Earnings 1936-1939	Earned 1941	Latest Interim	Average Dividends 1936-1939	Paid 1941	Paid to Date 1942	Recent Price	Unbroken Div. Record (Years)
Borden Co.	1.64	1.88	0.77 (Je-6)	1.50	1.40	0.90	21	44
Cannon Mills Co.	3.13	3.16	NF	2.31	2.00	1.50	33	53
Corn Exchange Bank Trust Co. (N. Y.)	3.91	2.98	*1.49 (Je-6)	3.00	2.85	2.40	35	89
Insurance Co of North America	3.96	4.93	d5.83 (Je-6)	2.50	3.00	3.00	70	69
Norfolk & Western Ry. Co.	20.02	18.69	8.31 (Ag-8)	14.00	15.00	7.50	162	42
Raybestos-Manhattan, Inc.	2.30	3.27	1.38 (Je-6)	1.48	2.00	1.12½	19	48
Sherwin-Williams Co.	6.21	7.83	NF	3.81	3.75	2.25	75	45
Standard Oil Co. (N. J.)	4.09	5.15	1.58 (Je-6)	1.81	2.50	1.00	41	61

* Indicated earnings. Je—June. Ag—August. NF—Not available.

which involves heavy movement of coal up the company's Shenandoah Valley line, has proven much more expensive than shipping coal downgrade to tidewater on the line that was especially constructed for that purpose. In other words, notwithstanding the larger volume of coal being moved by the northeastern railroads, rerouting of coal traffic has resulted in heavier operating expenses for this carrier. In August, for example, although gross revenues rose $283,000, operating expenses were $1,181,000 higher, with the result that the operating ratio for the month was 54.5%, as against 45.8% a year earlier.

This road is extremely vulnerable to Federal taxes, and liberal accruals have contributed to the sharp decline in net experienced this year. Earnings for the eight months ended August 31, 1942, amounted to only $8.31 per common share, compared with $13.90 per share in the similar 1941 period. The less favorable outlook may find reflection in 1942 omission of the $5 extra, paid near the end of 1939, 1940 and 1941. However, regular disbursements of $2.50 quarterly are being continued, and the company's strong financial status makes possible the maintenance of common dividends on the existing basis.

Raybestos-Manhattan, Inc., and predecessor companies have paid annual dividends in every year since 1895. Products include brake lining and clutch facings for automobiles, mechanical rubber goods, packings, floor mats, rubber transmission belting and other articles.

Following three years of earnings recovery, larger allowances for Federal taxes finally checked profit progress in the first half of 1942, and net income dropped to $1.38 from $1.82 per share of capital stock in the corresponding period a year before.

The sharp contraction in the normally lucrative automotive line of goods has been more than offset by orders originating in the war effort. Many of the company's asbestos and rubber products find wide utilization in tanks, airplanes, trucks, as well as for other military purposes. The chief operating problem confronting this concern has been procuring of sufficient supplies of raw materials. Allocations and priorities have been helpful, and it is hoped that adequate quantities of rubber and asbestos will be made available to maintain production at a high rate for the remainder of this year.

Earnings of the past three years, as well as a sound financial condition, have encouraged a fairly liberal dividend policy on the part of this organization. Payments of $1.50 each in 1939 and 1940 were followed by distributions of $2 last year. Dividends to date in 1942 consist of three payments of $0.37½ each, the latter being made on September 15. Financial and earnings factors suggest that this basis will be maintained, at least over the near future.

Sherwin-Williams Co., the world's largest manufacturer of paints and varnishes, has paid dividends in varying amount on its common stock annually since 1898. Other products of this company and subsidiaries include lines of dyes, cleaners, chemicals, polishes, insecticides and disinfectants. More than 50 plants are operated throughout the United States, and in Cuba and Argentina. Facilities also include lead and zinc mines in New Mexico, a smelter, also linseed crushing and chemical works, and a tin can plant.

Scarcity of tin and other imported raw materials has compelled intensification of research activities to develop acceptable substitutes. Among these may be mentioned tin-less cans, bristle-less "brushes," and a new paint, made from 28 ingredients, none of which is on the "critical list."

Expansion of essential war-time construction, requiring large quantities of paints and varnishes, as well as of other items manufactured by this company, should sustain operations at high levels for the duration. In addition thereto, the company is also directly engaged in military activities through management of the Government's new $27,000,000 shell and bomb loading plant in Illinois.

Report for the fiscal year ended August 31, 1942, has not yet been released, but in view of high tax provisions, it is probable that earnings on the common may not have exceeded $6 per share for that period, which would compare with $7.83 reported for the previous fiscal year. Dividends of $2.25 were paid on the common this year through August 15, compared with $3.75 in 1941 and $3 in 1940. The 1941 statement disclosed a strong current position. In the absence of later data, it is fair to assume that dividends will be continued on the existing basis.

Standard Oil Co. (New Jersey) enjoys an uninterrupted record of annual dividend payments that goes back to 1882. This holding company, through its subsidiaries, is the leading factor in the American petroleum industry, and also competes with the Royal Dutch Shell interests for world dominance in the oil trade.

Establishment of nation-wide gasoline rationing will probably result in extension of the earnings decline that was evidenced by the statement for the first half of 1942 which showed net income of only $1.58 per share, compared with $2.71 in the corresponding months of 1941. However, compensating factors are seen in the tremendous demand for petroleum products for military and lend-lease purposes. Moreover, Standard Oil will also expand production of synthetic rubber and its ingredients, while demand for high-octane aviation gas and for toluol (used in manufacture of explosives) will also be of large proportions.

Subsidiaries, meanwhile, are extending pipe line facilities in the South, for transportation of natural gas, as well as gasoline and light petroleum products. In this connection, the company, in a plan filed with the S E C in August, 1942, would divest itself of ownership of four natural gas subsidiaries by turning over these properties to a new company known as the Consolidated Natural Gas Co. The subsidiaries involved are the Hope Natural Gas Co., East Ohio Gas Co., Peoples Natural Gas Co. and the River Gas Co. Stock in this new concern would be given to Standard shareholders, on basis of one share of Consolidated for each ten Standard.

Dividends to date in 1942 include a semi-annual regular of $0.50, plus an extra of $0.50 paid June 15. These compare with $2.50 paid in 1941 and $1.75 in 1940. The regular $1 annual rate appears assured, and it is possible that another extra disbursement will also be made near the end of the year.

New Outlook For the Paper Industry

Average Profits Receding; Excess Capacity to Affect Long-Term Progress

BY JOHN C. HARRINGTON

Cartridges and containers, and powder and pulp, may superficially appear to have but little in common, but their combined utilization is essential to successful conclusion of the war in which we are now engaged. Though our direct participation in the conflict, with all that it implies, has somewhat obscured the slogan "Bundles for Britain," which was so conspicuous a year ago, we are still sending bundles of food, clothing and other desperately needed articles to our allies overseas.

Paperboard Containers for War Supplies

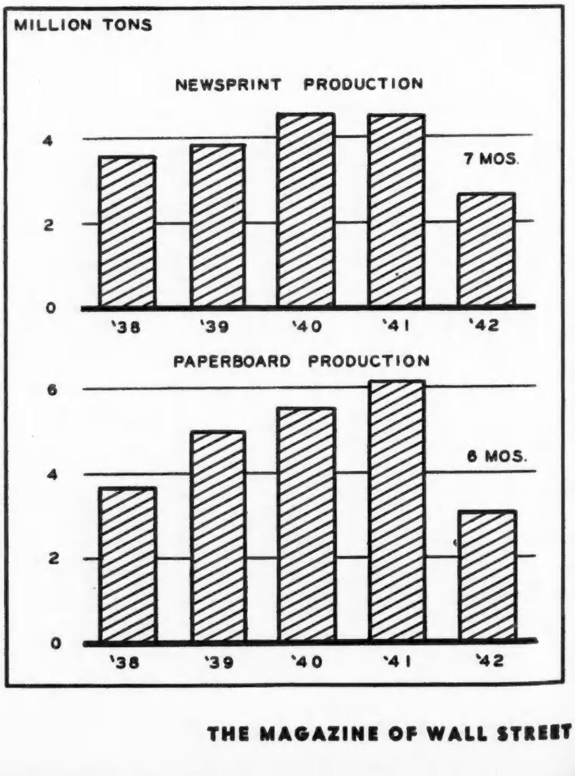
Of immediate and transcendent importance, however, have become bundles for our own fighting men on the world's far-flung fronts—not alone bundles of the minor luxuries to render less arduous their tasks in camp; but primarily bundles of ammunition, of naval and military equipment, and of medical and surgical supplies to assure overwhelming and decisive victory for our own forces and those associated with us in this epic struggle for our national existence.

Preparation of these vital packages is engrossing a considerable portion of the facilities of the North American paper industry. In addition to the manufacture of paperboard containers necessary to the multitudinous military purposes, the paper trades are also devoting much of their capacity for the production of nitrated pulp for explosives. Some estimates place the proportion of paperboard production to be consumed by the Government during 1942 at approximately 50% of the year's total output.

Cessation of Scandinavian pulp imports, following the outbreak of the war in 1939, induced broad expansion of manufacturing facilities by the paper makers in Canada and the United States, in order to provide for the unprecedented volume of business. A large portion of the orders received in 1941 resulted from fears of a paper shortage, as a consequence of which operations were conducted at levels approximating, and sometimes exceeding, rated capacity throughout the latter months of 1941, and well into the spring months of this year.

Eventually, accumulation of inventories, coupled with the recession in civilian requirements, compelled curtailment of paper and paperboard production. Operations in both divisions are currently ranging at about 70% to 80% of capacity.

Using as a base period, the eight weeks ended Oct. 3, 1942, the WPB late last week ordered a 10% curtailment in paper production, including newsprint, to take effect immediately, according to Washington reports. Paperboard was not affected—on the contrary paperboard mills were given an increase of about 5% above operating levels in the base period, because of the essential part they are playing in the war effort. These developments will have varying effects upon the activi-



ties of leading organizations in the production division of the paper industry, the nature and extent of such influences depending largely upon the character of operations in which these concerns are engaged.

Operations of Champion Paper & Fibre Co., a leading maker of book and white papers, have suffered from the decline in orders for book paper, and overall production has fallen about 20 per cent in recent weeks. Profits for the sixteen weeks ended August 16, 1942, fell to $0.58 per share from $0.96 per share of common in the comparable 1941 period. Little improvement is anticipated in the near future. However, finances are strong, and continuance of the regular $0.25 quarterly dividend for the near future is probable. This issue, on which payments in some amount have been made annually since 1915, provides a yield of about 6 per cent, and longer term outlook is satisfactory.

Cessation of Scandinavian pulp imports, following outbreak of war, induced broad expansion of U. S. manufacturing facilities —but operations are now only 70% to 80% of capacity.

Sales Prices "Frozen"

Container Corp., as the name implies, is engaged in manufacture of various types of paperboard packages. Requirements for war purposes are increasing, but it is doubtful whether these will offset drop in civilian sales over the immediate future. However, trade and financial positions are excellent, and a yield of over 7% is currently provided by the $0.25 quarterly dividend.

Although earnings of Crown Zellerbach Corp. were slightly higher for the fiscal year ended April 30, 1942, increased tax allowances depressed profits for the three months ended July 31, last. This concern is one of the most thoroughly integrated in the paper industry, with production unusually well-diversified. To date, the decline in paper demand has not affected operations in important degree, and freezing of sales prices has had but little effect on profit margins. April 30, 1942, balance sheet discloses an excellent financial status, and continuance of the $1 basis for the common shares is indicated. This issue, at around 12, offers liberal return.

Robert Gair Co., Inc., produces various types of containers, including cartons, shipping cases and paper packages for milk. Indicated earnings (before interest on income notes) were lower in the first half of 1942. Cash holdings at the end of 1941 were in excess of $1,100,000, compared with working capital of nearly $2,000,000. The preferred, outstanding in the amount of 186,392 shares (at the close of 1941), and selling around $9 per share, comprises an interesting speculation. Dividends of $1.20 were paid on this issue last year, while disbursements to date in 1942 total $0.90. Earnings on the preferred were equal to $5.90 per share in 1941.

Gaylord Container Corp., whose operations are well diversified geographically, has followed a rather liberal dividend policy in the past year or two. In addition to the regular $0.50 annual distribution on the common, extras of similar amount were paid in 1941, while such additional disbursements to date in 1942 have equalled $0.37½ per share. Profits for the first half of this year were but slightly lower, compared with a year ago. Inasmuch as the food industries form the principal market for the company's output, sales should be well-maintained in future months, although prospective tax increases may depress profits for the full year 1942. On indicated dividends of $1 per annum, the common shares furnish a return of about 10 per cent.

With minor exceptions, the principal portion of output of Great Northern Paper Co., consists of newsprint. Despite the decline in consumption of newsprint this year, the accumulation of inventories by publishers has aided in maintenance of sales volume. However, some shrinkage in demand is foreseen for future months, and this factor, coupled with generally higher costs and taxes, may result in an important recession in 1942 earnings. Unusually strong finances have permitted liberal dividend distributions on the common stock in recent years. Payments amounted to $2.50 in 1941, and will probably reach $2 this year. As a speculation on the continuance of the recent $0.50 quarterly basis the common shares hold some appeal—but the possibility of a downward revision should not be forgotten.

International Paper Co., is the world's largest organization in this industry, with operations embracing all important divisions of the trade. Although sales for the first half of this year rose 20% over those for the similar months of 1941, substantially increased tax provisions cut net income to $5.01 per share of preferred and $1.27 on the common, from $7.30 and $2.44 per share, respectively. Operations of the company and subidiaries are carried on extensively both in Canada and the United States, and large woodlands are held on both sides of the border. The broad scope of the company's operations renders it rather vulnerable to the effects of receding civilian demand, partic- (*Please turn to page* 43)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

W P B committee system is about to be overhauled. Some 500 committees figure in the Board's method of operation. Many of these have kicked urgent industry matters around for weeks before making recommendations to the top to get action on them. One committee for a long time refused to make recommendations unless it was unanimous. The committee procedure now is being revised so as to open up these time-wasting bottlenecks.

Washington Sees:

Consumers must expect to pay higher prices for the farm products brought under control by the so-called anti-inflation measure. Pressed by the President for a measure with authority and direction for "stabilizing" prices and wages to combat inflation, Congress jammed through a piece of legislation that is anti-inflationary in name only.

It sets the stage for still higher farm prices by raising ceilings that may be set on farm commodities through giving account to labor cost increases. It doesn't stop there. It also places a higher floor under them and guarantees that floor for a two-year period after the war closes. The particular provision raises the parity loan rate on basic commodities—cotton, wheat, corn, tobacco, rice and peanuts—from 85 to 90 per cent of parity and extends this rate two years into the post-war period. This provision alone will cost consumers $650,000,000 a year. This increased floor under prices got into the final bill as a result of a "deal" between the Administration and the farm bloc. It was not in the Senate bill.

As long as this provision stands it means inflated farm prices for the duration. It also means that after the war farm producers can continue to unload their crops on the Government at the high price guarantees and the taxpayer will pay the bill.

Army is worried over effect local labor shortages are having on its war contracts. It will act directly where such shortages threaten work stoppage. Army contract manufacturers with labor supply troubles are going to get some assistance. Army is assigning officers to defense areas all over the country. Their job will be too coordinate manpower needs of war contracts in the areas. They will try to meet needs for labor through cooperating with appropriate federal agencies.

Bright spot lies ahead for industrial users and manufacturers of silver. These have been hard hit by the Government's refusal to disgorge any of its hoarded white metal to be consumed in industrial use. Under Treasury's present lease-lend silver plan metal can be loaned to war industries but can't be "used up." It can be used only in a form which allows it to be returned to the Government after the war. Congress will pass a measure to allow hoarded silver to be "consumed" in war production.

Railroads will have to muddle along with little new equipment. Rail traffic peak won't be reached until war production is topped. Essential as transportation is, W P B will have to be satisfied that roads are making the maximum possible use of existing equipment and facilities and that excess transportation has been curtailed before it will grant steel for new cars and locomotives.

Full importance of the President's order on wages and prices stabilization won't be clear for weeks. Those parts of the order respecting regulation of salaries over $5,000 and those over $25,000 are particularly vague. Exactly what Director of Economic Stabilization Byrnes will do about the salary problems won't become known for some time.

The national service act that comes out of Congress will not be as drastic as you have probably been led to believe. Government officials and agencies have been making dire predictions about how total manpower, total womanpower and total 'teen age power are to be mobilized and put to work wherever it can be used to win the war. The effect of these outpourings has been to condition the public mind toward expecting and accepting drastic measures.

If the people of the country are all "primed" for severe steps in compulsory national service, then Congress is lagging behind the public mind. The lawmakers on Capital Hill are still not sold on the idea of ordering people around too forcibly.

The measures now before Congress mobilize total manpower and womanpower will be resolved into one patterned, in general, after the Canadian and the British, but not so far-reaching as the latter. Control will go under one Government agency. The odds are that Paul V. McNutt's War Manpower Commission will be that one.

Here are some things Congress will grant. It will (1) end voluntary enlistments in all the armed services, (2) grant priorities for farm labor and industry labor over manpower for the Army and Navy where that labor is critically needed, (3) allow curtailment of men and women to be permitted in non-essential business and industry, (4) permit wider freezing of workers in war jobs and essential industries.

War contracts will continue be renegotiated. The services, however, will make revisions in their methods of renegotiation in an attempt to meet the criticisms which have been directed against their practices under the contract renegotiation law.

Senate Finance Committee has been ganged up on. It wanted to write a straight 5 per cent ceiling or limitation on war contract earnings into the tax bill as a substitute for the much assailed renegotiation law. But Army, Navy, Maritime Commission and Treasury have formed a united front against any such change.

The Committee yielded to this pressure. It has dropped its plans for the 5 per cent ceiling, but only temporarily. It will wait to see whether renegotiation methods are revised and clarified. If not, the supporters of the ceiling will try to write their idea in the next tax bill.

Look for general food rationing next year. This season's crops were peak harvests, but production of most foods will fall off during 1943 season. Lack of farm labor, inadequate farm equipment and shortage of fertilizers, plus likelihood of bad weather, will all contribute to short crops.

Meanwhile, demand for food for the armed forces and lease-lend requirements will continue to increase. Result is that almost all basic foods will be rationed before the end of 1943. Attempt to control foods will be first to limit supplies to distributors—wholesalers and retailers—as is now being done with some items. This will be followed by consumer rationing.

There will be enough over-all food supplies. They will meet the requirements of the military forces, lease-lend and civilian consumers. There will be enough for civilians after the other needs are met. Supplies will be sufficient to maintain an adequate standard of health and strength.

There will be shortages of certain foods. This will mean substitution of one food for another, smaller daily consumption of the short foods and more carefully planned diets to assure physical well being.

The Government will give you planned diets via radio and press. It will plan your menus for you and tell you you what to eat.

Your meat requirements will be under rationing restrictions before the end of this year. Dairy foods such as fresh, evaporated and condensed milk, cream and cheese, will be short and will require Government allocation.

Don't expect much of Congressional aid to small business. Congress regards the plight of small business very seriously. It will go on looking into the problem to seek a solution. But it won't find a satisfactory one.

An abnormally high mortality rate for small business is a necessary evil of war. Government officials make no secret of the fact that hundreds of thousands of small manufacturers, wholesalers, retailers and service business will be forced to the wall. They regard it as the price that has to be paid as a result of growing shortages of men and materials.

The 1943 prospect for small retailers is dismal. The small merchandiser with few lines and limited inventories will suffer most from the even more sharply reduced civilian economy that lies ahead. Problems of larger retailers will be complicated not only by scarcities of goods, but lack of personnel and narrowing profit margins.

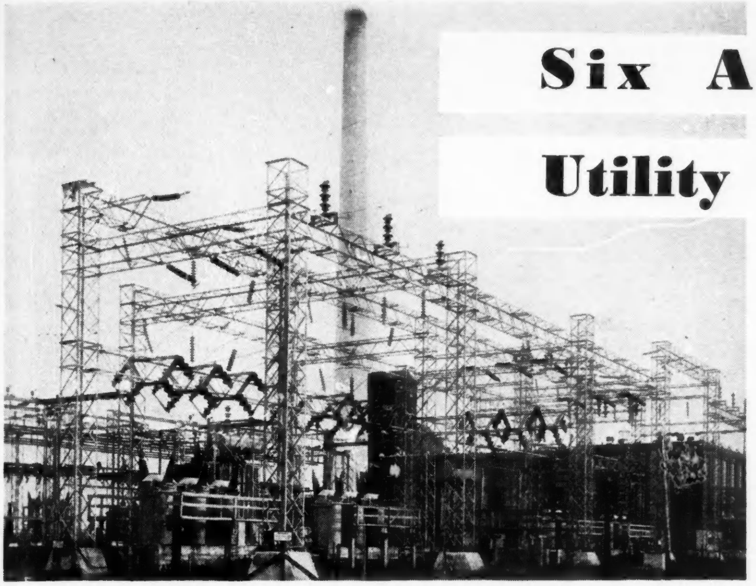
Merchandisers, large and small, will have to be agile to get along. They'll have to switch whenever and wherever possible from one line to another as critical-material merchandise becomes unavailable.

New lines will be hit harder as months go by. Among these are (1) radios, pianos and musical instruments, (2) furniture and household wares and appliances and home furnishings, (3) mens and women's apparel, (4) office supplies and equipment, (5) jewelry and allied items.

Commerce Department experts say they're alarmed at this trend. They feel manufacturers have an obligation to do everything they can to help keep their dealers in business. They will undertake a study to find out how this can be done. Don't look for anything more than suggestions. The manufacturers are wondering how they're going to keep their plants open.

Look for a severe cut in pulp and paper production. The sweeping death warrants decreed by the Office of War Information in the long list of Government publications, reports and handouts was more than an economy move. It has paved the way for the WPB to ask the country to do with less paper and paper products.

There is no shortage of pulp or paper. But WPB will order an overall slicing of production for the purpose of conserving electric power, chemicals and manpower, as well as transportation facilities. Newsprint is included in the plans, too.



Six Attractive Utility Preferreds

Priced Well Under Liquidating Values

BY FRANCIS C. FULLERTON

THERE has recently been renewed market interest in utility securities, due to favorable tax proposals by the Senate Finance Committee, including a suggested provision that preferred dividend payments be exempt from surtaxes. The recent action of the SEC in ordering dissolution of several utility holding companies has also called attention to the fact that many securities are selling far below their estimated liquidating values. However, there are many pitfalls to be avoided in the selection of holding company issues, and the "timing" of purchases is also important for the seeker of profits. The following preferred stocks have been selected as of special interest.

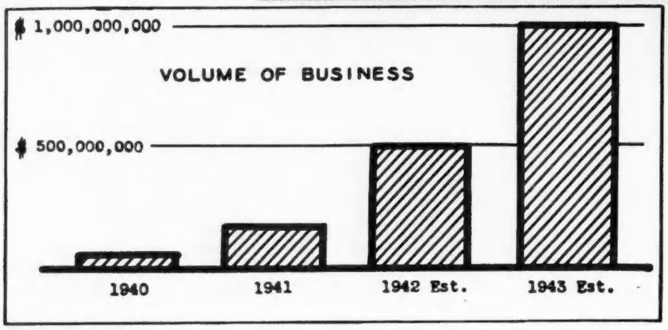
United Corporation $3 preferred, currently selling around 13 (range this year 16⅜-11), has a current liquidating value of nearly $22 per share. The utilities division of the S E C recently urged that the company be dissolved and assets distributed to preferred stockholders (2,489,000 shares). Assets include about $7,000,000 cash, about $24,000,000 worth of United Gas Improvement and smaller interests in other utility stocks, together with a modest portfolio of 25 "blue ribbon" industrial stocks.

However, the company has indicated that it will try to salvage some value for the common stockholders; and a utility expert has estimated that, with normal earnings conditions prevailing, the common should be worth about 6. It seems likely that if the S E C issues a definite dissolution order, the Company will appeal to the Courts. The constitutionality of the Utility Act has already been attacked by several large utility holding companies and United could probably join in this litigation, with eventual appeal to the Supreme Court. However, because of the New Deal complexion of the Court and the fact that the former S E C Chairman, Mr. Douglas, is a member, it seems probable that the constitutionality of the Act will be sustained. Therefore, unless there is a substantial further decline in utility stocks, a patient holder of United Corporation preferred might well hope to gain 50% profit in the dissolution. Whether income will be received in the interim, however, is problematical. The Company paid a special $3 dividend last April, but with current income around $1.20 per share (June quarter 32c), the dividend policy remains uncertain. Arrears now amount to about $1.50.

United Light & Power preferred, now around 19 (range this year 23-10½) does not pay any dividends but seems to have interesting near term appreciation possibilities based on the pending dissolution plan. The company has proposed to the S E C that each share of preferred receive six shares of common stock of the sub-holding company, United Light and Railways (1/10th of a share being given for one share of Power common). Hearings were completed some weeks ago and an early S E C decision appears likely, since the Company has cooperated with the commission and the dissolution program is well advanced. United Light & Railways is expected to earn about $1 a share or more on its common stock in the calendar year 1942, after allowance for increased taxes. It seems likely that a dividend of 50c annually might be paid, beginning sometime in 1943 (in the past about half the earnings for the common has been paid to the Power Company). It is estimated that the new common stock might eventually sell around 4 or 6, based on the assumed possible earnings and dividends, which would be equivalent to 24-36 for the Power preferred. However, earnings are of course contingent on future taxes, as well as the S E C decision.

Among the higher-priced stocks, **National Power & Light $6 preferred,** currently around 73 to yield 8¼%, seems relatively attractive. Earnings for the 12 months ended Aug. 31 amounted to *(Please turn to page 44)*

Investment Audit of Bendix Aviation



BY PHILLIP DOBBS

Among the major American enterprises that are wholly dedicated to war production, few—if any—have experienced a more remarkable transformation than the Bendix Aviation Corporation. To say the least, various things about it and its capital stock are unusual. For a starter, consider the following:

Sales volume this year is expected to be more than ten times larger than that of any pre-war year. Sales volume next year is expected to be more than twenty times that of any pre-war year.

Under the highest rates carried in the pending tax legislation, Bendix net profit for the twelve months ended September 30 will exceed by a very substantial margin the combined earnings of the five years 1935-1939.

In a depressed market, the stock's current price is higher than the highest prices attained in 1936-1937 when a bull market was in full swing. At the lowest price this year it was only 2¼ points under the highest price of 1937.

Contrary to general market experience, Bendix shares today are valued about 53 per cent higher than they were just prior to the start of the European war on September 1, 1939.

All of which does not necessarily mean that this stock is a bargain for investment or speculative purchasers. As to that important question, we shall have to look deeper and explore the pros and cons more carefully.

Upon what is the worth of the stock—the 2,113,000 shares of which constitute the sole capitalization—chiefly based? It is not plant assets. The "book value," according to latest available balance sheet, is only some $19 per share. It is not quick assets, for net working capital, as last reported, is less than $7 per share. It is not past record or reputation, for earnings in the five years prior to the war averaged only $1.24 a share and dividends only some 85 cents a share. It is not any one patent or process.

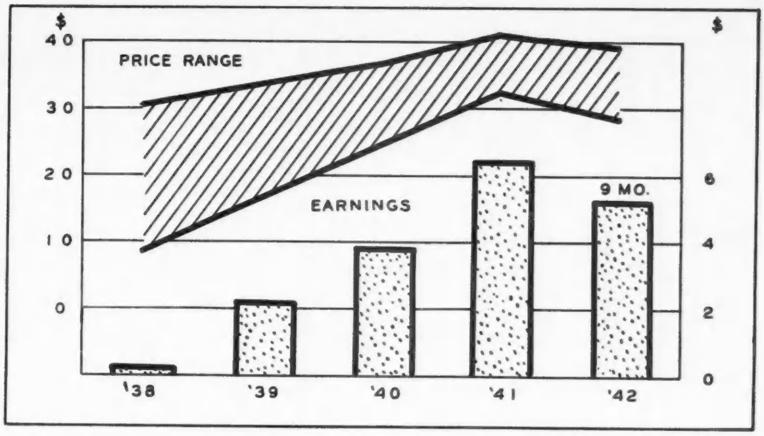
What is it then? I would say it is chiefly the "know how" of production of a notably long and diversified list of equipment and accessories used mainly in the aircraft, marine and automotive fields—as translatable into earnings and dividends for the present and the future.

Potential Earning Power

Yet potential earning power for the war years ahead cannot be forecast with any degree of certainty—and the earnings prospect for the post-war years is even more highly conjectural. Both for the war years and the post-war years, it will depend upon: (1) total effective tax rate; (2) prices and operating profit margin; (3) volume. All three are subject to change.

Under an 80 per cent tax limit, as recently provided by the Senate Finance Committee, the company's present annual earning power can be estimated at somewhere near $10 per share. Suppose at some future time the effective tax rate was lifted to 90 per cent. That seems extreme but anything can happen in war. In that case, on the basis of 1942 volume and contract prices—which during the year were revised down by a total amount in excess of $73,000,000—the earnings potential

would be at least $5 per share. But, on the one hand, the further assured rise in volume would tend to increase profits while, on the other hand, the further adjustment of contract prices would be at least a partial and possibly a complete offset



Regardless of how moderate may be the percentage profit on sales, per share profits greatly in excess of the pre-war average must be expected to invite Government scrutiny. Since Bendix, with hugely rising volume and even at a 90 per cent tax rate, could earn per share profits at least several times larger than its pre-war average, you can probably expect repressive action in the form of further contract-price adjustment. Yet the contracting officials of the armed services are not crusading against profits. What they seek is maximum efficiency of production at "reasonable" profits and in judging the reasonableness of profits they consider each case on its own merit. On a volume of, say, $500,000,000 they hardly would contend that Bendix should earn no more than it did on a $40,000,000 pre-war volume.

As heretofore brought out, allowing for an 80 per cent tax limit, the forthcoming report for the fiscal year ended September 30 should show around $10 per share. That might or might not suffice to give a lift to the stock, which in recent weeks has been performing substantially "better than the market." But forget the $10 figure. To be prudent, assume that, despite further rise in volume, contract renegotiation will in future tend to stabilize profits at a level well under $10 per share. To be quite conservative—at least it looks so to the writer—let's rate the Bendix earnings potential in subsequent war years at only $5 a share.

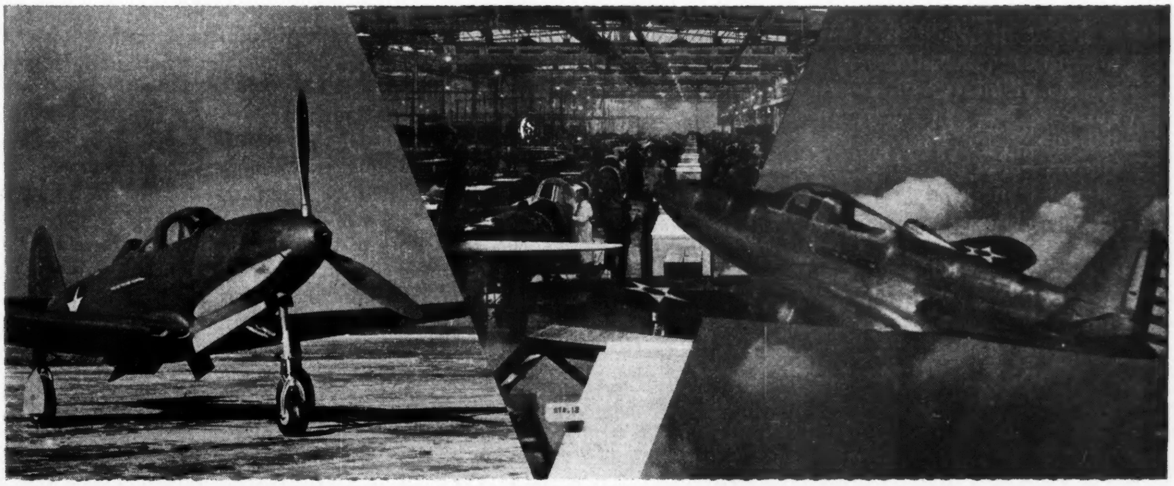
In that case it would now be priced at 6.8 times earning power, instead of 3.4 times the estimated earnings of the past year. In that case the dividend might be, say, $2.50 instead of present indicated rate of $4—yielding 7.3 per cent return against nearly 12 per cent on existing basis.

The estimated average current yield basis of the 30 stocks making up the Dow-Jones industrial average is 6.37 per cent; and the average yield basis for 600 stocks, as compiled by Moody's, is approximately 6 per cent. Thus the current yield basis of Bendix is nearly twice the prevailing average and on a $2.50 dividend it would still be some 17 per cent higher than the presently prevailing average.

The Liberal Dividend

The $4 Bendix dividend paid last year and the three quarterly payments of $1 each made to date this year seem remarkably liberal in view of the company's tight working capital situation. It is to be doubted that the balance sheet, as of September 30, will show any radical working capital gain as compared with a year ago, when current assets totaled $75,185,000—of which cash was just under $12,000,000—and current liabilities amounted to $61,166,000. That is a notably low working capital ratio for an industrial company. As of June 30, the company figured its tax obligation to the Government—first claim on future cash holdings from quarter to quarter—at some $66,000,000! It is hard to see how Bendix, or any other company, could loosen up its liquid financial position while paying taxes in cash on that scale.

Past ratio of dividends to earnings has varied widely. At present it is about 40 per cent. Last year it was about 63 per cent; in 1939, 66 per cent; in 1938, no dividend; 1937, $1 out of net of $1.08; 1936, $1.50 or more than earnings, which were $1.44; 1935, only 25 cents out of net of $1.51. *(Please turn to page 44)*



Five Special Situations For Income and Appreciation

BY H. F. TRAVIS

Continental Steel Corp.

Output of this comparatively small unit in the steel industry is marketed chiefly in agricultural regions of the Middle West, and consists of a variety of wire and wire products and annealed and galvanized sheets. Distribution is effected principally through jobbers and dealers in farming areas, while a small amount of business is also normally transacted with automobile parts and household goods suppliers.

Enhanced agricultural prosperity in recent years has made for generally higher earning power for this concern, and profits of $5.46 per share of common in 1941 were the best since the big depression.

The broad earnings improvement experienced by this company in recent years has permitted material strengthening of finances, thus permitting a fairly liberal dividend policy. An issue of $2,000,000 debentures privately financed in 1939 has been reduced by sinking fund operations to $1,400,000, including $200,000 carried as a current liability, as of June 30, 1942. This issue matures in May, 1949.

Profits for the first half of 1942, in the amount of $1.70 per common share, were well under the $2.85 reported for the same months a year earlier, and for the full year 1942 may fall below $4. The high excess profits tax exemption base is an important factor in estimating the year's earnings.

Working capital position as of June 30, 1942, was strong. After allowing for long-term debt and for preferred stock at par, working capital was equal to over $19 per share of common, or somewhat above prevailing market quotations. Post-war prospects are particularly encouraging, while the common, on a conservative dividend basis of $1 annually (payments were $2.50 in 1941 and $1.50 in 1940), provides a return of nearly 6 per cent. Purchase is recommended. Approximate price: 18.

Erie Railroad Co. *Income S. F. "A" 4½s, of 2015*

Substantial expansion in revenues and earnings has characterized activities of the Erie Railroad Co. since completion of reorganization late in 1941. For example, gross operating revenues for the seven months ended July 31, 1942, were 27% above those of the comparable months of 1941. Fixed charges, after income taxes, were covered 3.41 times for the seven-month period, after allowance for which, an amount equal to about 18% was available for the income 4½s. Interest on this issue is payable to the extent earned.

The income bonds, outstanding in the amount of $51,650,000, as of July 2, 1942, were issued in reorganization to holders of the old bonds of Erie (except to holders of the old First. Cons. Prior Lien 4s), and comprise a junior lien upon all properties of the company covered by the First Consolidated mortgage. The bonds are callable at 103 through the year 1999, and at descending rates thereafter. They are also convertible into 5% cumulative Series B preferred stock of $100 par (reserved for conversion of the income bonds), at the rate of one share of stock for each $100 of bonds.

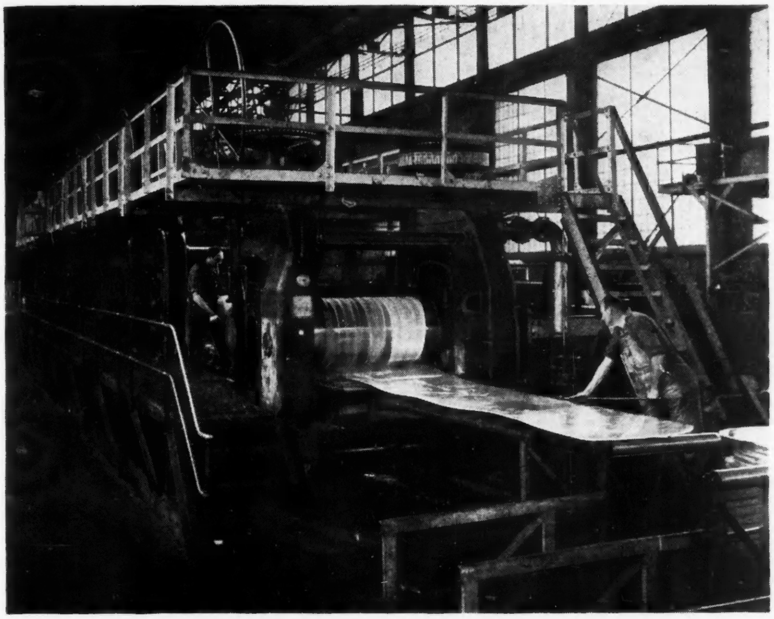
Erie, which operates about 2,300 miles of road, with main routes extending from New York to Chicago, New York to Buffalo and from Buffalo to Chicago, derives about 90% of revenues from freight hauling, of which products of mines provide about 25% and manufacturing and miscellaneous, 48%. Traffic on the road this year has been stimulated by greatly expanded shipments of bituminous coal, iron and steel products, and various types of military equipment, and acceleration in movement of virtually all classifications is indicated for the duration, assuming, of course, that the road will be able to secure the necessary equipment to handle the steadily mounting volume.

Interest payments, due annually in April, on the income bonds, have been made in full to date when due. Continuance appears assured, in view of the company's excellent cash position, and wide coverage on this issue. At prevailing quotations, a yield of over 8 per cent is provided, and their speculative acquisition is recommended. Approximate price: 55.

General Steel Castings Corp. *Preferred*

Revival of substantial demand for railroad equipment, accompanied by a large volume of war business, is currently providing capacity operations for the plants of General Steel Castings Corp. Present activities are in sharp contrast to the experience of 1931 to 1936, inclusive, when net operating deficits were incurred. The improved status of the company was reflected in expansion of profits in 1940 and 1941, when earnings amounted to $11.06 and $33.29 per share, respectively, on the $6 preferred. However, allowance of nearly $7,000,000 for excess profits taxes in the first half of 1942 cut profits on the preferred to $10.46 per share from $16.91 in the similar 1941 months. (Of the common shares, 35% is owned by American Locomotive Co., 22% by Baldwin Locomotive, and 32½% by American Steel Foundries.)

Equipment made for the railroads consists principally of one-piece railroad engine beds and passenger car



Sheets—annealed and galvanized—and wire and wire products constitute bulk of Continental Steel's output. Chief market is the Middle West.

underbody frames, while war orders are understood to embrace cast armor, tank turrets and parts and other large castings. Plants of the company are located at Eddystone, Pa., and Granite City, Ill.

After an interruption of a decade, dividends were resumed upon the preferred in 1941, with a payment of $1.50, followed by disbursements of $4.50 to date this year. Accumulations as of July 1, 1942, amounted to $60 per share. Notwithstanding the fact that cash holdings at the end of 1941 were equal to $53 per share of preferred (of which 100,000 shares were outstanding), distributions on account of arrears have been limited because of the indenture in company's bonds which provides that no dividends may be paid on the preferred which would reduce net current assets to less than 35% of outstanding bonds. In this connection, purchases of bonds (1st Mtge. 5½s of 1949) by the company have reduced amount in hands of public to $15,077,000, as of April 30, 1942, from $17,000,000 at the end of 1940. Possible revamping of capital structure to eliminate heavy preferred arrears would also involve questions of refinancing of debt, which matures seven years hence. These considerations, in view of company's favorable long-term outlook, afford the preferred stock excellent speculative appeal at current quotations. Approximate price: 62.

Lee Rubber & Tire Corp.

Lee Rubber & Tire Corp. has been favored by substantial orders for tires for military vehicles, while output of mechanical rubber goods for essential war purposes has also contributed toward maintenance of capacity operations, notwithstanding the drop in normal tire demand. Other normal business includes rubber hose, belting, packing, and a general line of mechanical rubber goods. More than 500 different rubber articles are produced by the company at its plants in Conshohocken, Pa., and Youngstown, Ohio.

Earnings recovery over the past decade has been fairly consistent, and fiscal year profits reached a post-depression peak at $6.14 per share of capital stock for the year ended October 31, 1941. Progress was maintained in the following six months, net income amounting to $2.48 per share, as against $1.68 for the six months ended April 30, 1941. Up to this time, excess profits taxes have played a minor role in the company's income status, and in view of the fact that the company's fiscal year ends in October, much depends on the nature of the tax bill now before Congress. The Senate proposal would include higher levies on all companies with fiscal years ending June 30 or later. Should the bill eventually enacted contain such provisions, it is estimated that the company's net for the current fiscal year would approximate $4 per share.

A rather liberal dividend policy has been pursued by the company during the past five years. Disbursements to date in 1942 amounted to $2.25 per share, thus equalling the total for 1940 and 1941, and being slightly under total payments for 1938 and 1939. Nevertheless, a strong financial position has been preserved. Cash holdings of $3,000,000 as of October 31, 1941, alone were considerably in excess of total current liabilities of $2,339,000.

The company's strong trade position should assure full participation in post-war business. Regardless of tax factors, the earnings outlook is sufficient to warrant purchase at prevailing quotations. Approximate price: 25.

United Merchants & Manufacturers, Inc.

This concern is one of the comparatively few completely integrated American textile organizations. Through subsidiary and affiliated companies, United is engaged in manufacture and sale of cotton, silk and rayon textile fabrics in the United States, Canada, Argentina and several other countries; while it also conducts a general factoring business through its wholly-owned subsidiary, United Factors Corp. About two-thirds of aggregate volume consists of rayon fabrics.

The rapid rise in the popularity of rayon has unquestionably contributed to the broad expansion in earnings since 1938. Profits for the fiscal year ended June 30, 1941, were equal to $4.37 per share of capital stock, compared with $3.37 per share in the previous twelve-month. Improvement carried through the final six months of 1941, and net income amounted to $3.54 per share, compared with $1.70 for the last half of 1940. While earnings have been but little affected by excess profits taxes, it is possible that the company's statement for the fiscal year which ended June 30, (*Please turn to page* 46)

How Much Prosperity Still In Coal Companies?

Current Profits High, But Peace-Time Outlook Dubious

BY GEORGE W. MATHIS

OLD KING COAL is back on his throne—for the duration!

Aided by a propitious combination of circumstances, which embraces abnormal wartime demand in industrial operations, as well as increasing requirements as a substitute for oil for domestic utilization, the coal industry has taken on a new lease of life which bids fair to sustain wartime operations at levels considerably in excess of those which had prevailed for several years past.

It is nearly a quarter of a century since coal production attained a rate such as now prevails. Output of bituminous coal for the six months ended June 30, 1942, aggregated 285,000,000 tons. At the rate of current production, now approximating 11,200,000 tons weekly, it is estimated that the total quantity of bituminous mined for the full year 1942 will be in excess of 570,000,000 tons, a level not substantially surpassed since 1918, the greatest coal production year in American history, when aggregate production was 579,300,000 tons.

In the anthracite division, production for the six months ended June 30, last, amounted to about 29,500,000 tons, or nearly 10% over the total for the first half of last year. The disparity in the rate of gain over the first half of 1941, compared with that enjoyed by the bituminous producers, may be explained by the fact that the latter are particularly favored by heavy orders from the vital war industries. However, in connection with the partial transition from oil to coal as a medium of domestic heating, it is possible that the anthracite producers may retain some portion of this new-found source of business after the end of the war. Because of labor, transportation and equipment problems, it is uncertain whether the more recent rates of gain in anthracite mining can be maintained, but in some quarters it is estimated that the total output in this department of coal mining may approximate 60,000,000 tons for the full year 1942, which would compare with 56,368,000 tons of anthracite in 1941.

The vital role played by coal in the development and prosecution of our military program is emphasized in a statement by the Department of Commerce which avers that "the general scarcity of no other commodity would bring as widespread disaster to the war production effort of the nation as would a shortage of coal. Therefore, to a large extent the expansion of American industrial output within a short period of time, and especially under emergency conditions, is circumscribed within the limits of coal production. . . . In a long war, the ultimate capacity of the coal mines and their labor supply may well be an extremely vital factor."

Among the more formidable problems currently confronting the coal industry are labor and transportation. Attracted by the more liberal remuneration obtainable in factories engaged in direct war production, workers have left the mines in large numbers, while the draft likewise has made heavy inroads into the ranks of the coal miners. Notwithstanding the fact that improved mining processes and use of additional mining equipment have made possible the present high production with only 80 per cent of the workers required in the record year 1918, the potential shortage of competent labor in future months may interfere with production to an extent that cannot yet be forecast.

The labor problem is further complicated by the fact that the two-year contract with the Appalachian operators expires next spring. Pointing out that expiration of previous contracts was the occasion for "a miners' holiday of nearly a month's duration during 1939 and

1941, pending the negotiation of a new agreement," the Department of Commerce asserts that "a recurrence of this biennial strike in 1943 would result in a loss of a large volume of absolutely essential production that might necessitate Federal intervention in both the production and distribution of coal." Whether subsequent developments may demonstrate that the views expressed by this Government agency were unduly pessimistic, there can be little question that generally higher scales of wages will eventually be established for the miners, thereby adding to the costs of doing business by producers of anthracite and bituminous coal.

Shortage of colliers, partly as a result of enemy submarine action, and partly as a result of diversion of shipping to military purposes, is compelling the movement of an increasing proportion of coal by railroad directly from the mines to the great consuming markets of the East. Under normal conditions, for example, about two-thirds of the estimated 20,000,000 tons of bituminous coal consumed in the six northeastern states are transported by rail to tidewater at Hampton Roads, Va., and trans-shipped by collier to New England. Thus operating costs will be further increased, as a consequence of the higher freight charges involved in direct rail transportation from the mines to those consuming markets.

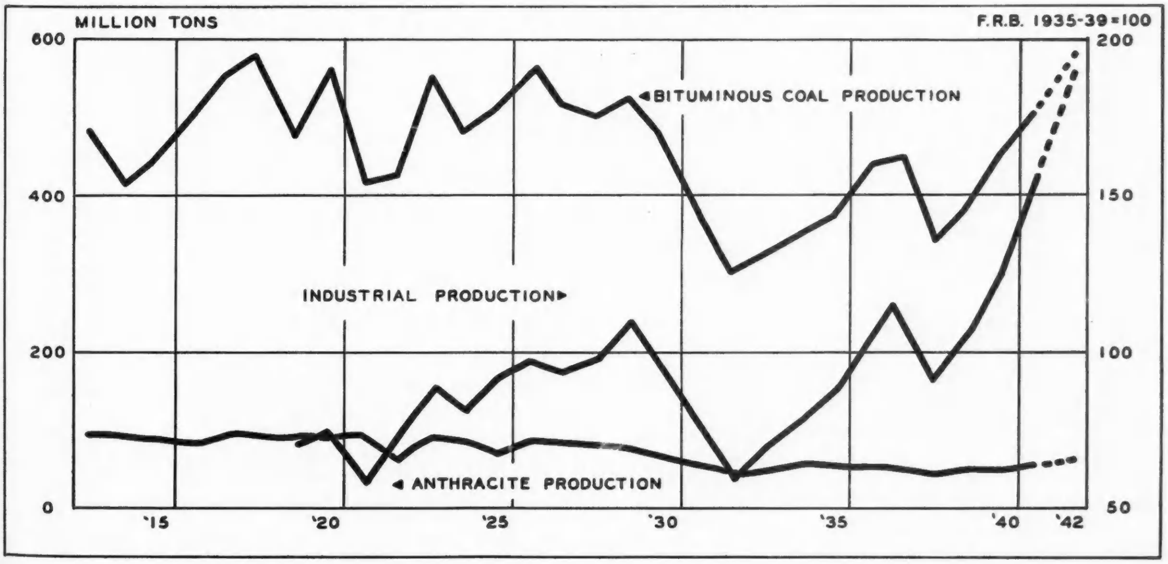
Substantially increased sales have found reflection in enhanced profits for certain of the more prominent organizations in the coal producing industry. Consolidation Coal Co., the second ranking concern in the bituminous trade from the standpoint of tonnage, reported a 35 per cent rise in sales during the first half of 1942, compared with the similar months of 1941, while profits advanced from $0.51 to $1.95 per share of common stock. No dividends have been paid on either the non-cumulative preferred or the common. Financial position at the end of 1941 was fair. Liquidation of $385,000 accrued bond interest would be a step toward initial distribution on the preferred, thus affording this issue moderate appreciation possibilities.

Glen Alden Coal Co., the largest domestic producer of anthracite coal, does not report on an interim basis. Profits equal to $2.17 per share in 1941, compared with $1.66 in 1940, on the capital stock. Finances at the 1941 year-end were unusually strong, with cash and Government holdings of $10,600,000 alone being nearly twice current liabilities. Operations for the year will be favored by increased use of anthracite for domestic purposes. In 1941, the company paid $1.70 per share on the capital stock, while payments to date in 1942 have amounted to $1.10. On the assumption that another liberal distribution may be made before the year-end, the stock at current prices possesses appeal from the standpoint of return and market appreciation.

Increased tax allowances retarded earnings progress of Island Creek Coal Co., prominent bituminous producer, during the first half of 1942, profits amounting to $1.06 per share of common, compared with $1.26 per share in the similar 1941 period. An unusually strong financial condition has permitted distributions on the common shares—which have been maintained without annual interruption since 1912—even during years when they have not been fully earned. Payments to date in 1942 amount to $1.50 per share, compared with $2.50 and $3.00 paid in 1941 and 1940. On an indicated basis of $0.50 quarterly per share, the common provides a yield of about 7 per cent.

Lehigh Coal & Navigation Co., with extensive coal, public utility and railroad interests, has paid some dividend on the common in every year since 1881. Earnings for the twelve months ended June 30, last, declined moderately from the preceding comparable period. Finances are sound, and dividends for the year may approximate the $0.65 paid in 1941. Even should common payments not exceed $0.50 per share for this year, the stock, at current prices, would furnish a return of about 10 per cent on the investment. Lehigh Valley Coal Corp., with anthracite interests in eastern Pennsylvania, reported half-year earnings little changed from those of the preceding year. Although finances are strong, the large preferred accumulations render the common shares unattractive.

Operations of Pittsburgh (*Please turn to page* 46)



FOR PROFIT AND INCOME

What to Do with Gold Shares?

Gold shares broke sharply on announcement of W P B that gold mines would be closed in order to divert miners to more essential types of metal extraction. Outlook for Canadian mines, now under restriction but not closed, is uncertain. The prudent assumption would be that they will also be closed. Investment attitude toward gold shares at present reduced prices presents a difficult decision. Duration of the shutdown is indefinite and wholly conjectural, depending apparently on the length of the war. Dividend reductions and omissions must be expected. Where gold shares have been held primarily for income and where loss of this portion of income would be important, investors even at present prices have no logical alternative to a switching operation. As regards capital values, it is a moot question whether lowest prices have been established in anticipation of mine closings or whether they may be subsequently established at still lower levels on adverse dividend changes. There is obvious potentiality of very handsome long-term profit in good issues like Homestake. But long-term in this case means really long-term and no kidding. It might be five years or what have you before it is again producing gold. Our view is that bottom prices probably will be followed by a protracted period of stabilization and dullness not importantly above the lows. Thus, even if gold shares appeal to you for distinctly long-term reasons, it does not seem that you need be in any hurry on a buying decision.

Leased Line Stocks

This started out to be a discussion of a bull market, then the present plight of the gold shares was mentioned. Now, the weakness, with new lows for many of them, in the stocks of leased line railroad shares is brought forward. But it is done with a view of calling attention to an unusual investment. Most of the leased railroads were contracted for many years ago, some nearly a century ago. Nothing was said about income taxes and excess profits taxes in most of the leases, with the result that the government has now enjoined some of the leased lines from paying dividends until government claims for taxes have been met. If this point of view is sustained in the higher courts, then many of the leased line stocks will cut their dividends and some will pass them. There is at least one bright exception to this situation. The lease of the Carolina, Clinchfield & Ohio was signed in 1923 and it specifically provided that the leasing lines were to pay all taxes, including taxes on income, and also all interest on bonds and expenses of the road, and provide a net sum of money which was specifically to be used for paying dividends on the capital stock and for no other purpose whatsoever. The dividend rate is $5 a share a year on the Carolina, Clinchfield & Ohio, and at present price for the stock on the New York Stock Exchange, the yield is about 6%. The leasing lines are the Louisville & Nashville and the Atlantic Coast Line. The lease runs until 2922, or 980 more years. As far ahead as can reasonably be foreseen, these two roads ought to be good for the guarantee money, at least over the next couple of centuries.

Mareng Cells, like this, turn box and gondola cars into tank cars, helping oil transportation problems.

An Unusual Speculation

The Norfolk Southern Railway income 5s, maturing in 2014, seem to have an unusual speculative position. This railway was reorganized in the early months of 1942, with a sharp scaling down of fixed charges of the Norfolk Southern Railroad which had been in receivership since 1932. The capitalization of the new road is $3,918,000 first mortgage 4½s due in 1998, $6,892,300 general mortgage income 5s of 2014 and 61,085 shares of no par value common stock. In past years, the road's net available for fixed charges would have covered the present fixed charges with a good margin to spare, and so the first 4½s, selling at about 72, have fair investment merit and give a good yield. The 1942 earnings have been at a rate of about three times the fixed charges, with a balance of about 12% on the income 5s. That means that they ought to get their interest for this year. Furthermore, the income 5s are entitled to such income as was earned in the past three years, as the plan of reorganization was dated January, 1939. This is figured at 9½%, and it is considered to be accrued on the bond. On this basis, the recent price of 34½ for these income bonds would be reduced to a net cost of 25 by the early payment of the back interest and to 20 by the payment of 1942 interest. The income 5s are convertible for the common stock on a basis of 40 shares of stock for each $1,000 bond. If a price of 20 as the net value is figured upon, that would make a price of 5 at which a conversion for common would be profitable. The stock is selling at about 6½, over the counter (the two bonds are listed on the New York Stock Exchange). The 1942 earnings, incidentally, are running at a rate of about $6.50 a share on the stock, but the real speculation is in the income 5s at this price, for with their conversion feature, they would benefit from any move in the stock, and furthermore, they have to get their income before the stock gets anything. There has been some difference of opinion in security circles as to just what is to be considered to be accrued interest or dividends on bonds or stocks that are issued in reorganization. Even if the 9½% figure mentioned above is larger than will actually be paid on these bonds, there is only a little of their speculative attraction taken away.

Public Utility Preferred Stocks with Profit Possibilities

Name	Regular Dividend Rate	Indicated 1942 Dividends	Unpaid Accrued Dividends	Earned Per Share in 1941	Recent Price	Outlook
Amer. & Foreign Power...	$6.00	$1.20	$60.90	$6.76	37	Prospects of a great gain in business after the war.
Amer. & Foreign Power....	7.00	1.40	71.05	6.76	41	
American Power & Light..	5	1.81	20.06	5.42	18	Large capital payments in dissolution.
American Power & Light..	6	2.62	24.07	5.42	19	
Commonwealth & Southern.	6	1.75	23.25	8.09	29	Better position after integration.
Consol. Edison of N. Y....	5	5.00	None	15.53	84	Eventual regaining of high investment status.
Electric Bond & Share.....	6	6.00	None	6.92	46	Company is buying its own preferreds; also outlook for higher values in liquidation.
Electric Bond & Share.....	5	5.00	None	6.92	44	
Laclede Gas Light........	5	None	42.50	26.79	37	Reorganization plan to give 11 shares new common for one old preferred.
Public Service of N. J.....	5	5.00	None	10.35	68	Eventual regaining of high investment status.
Public Service of N. J.....	6	6.00	None	10.35	84	
Public Service of N. J.....	7	7.00	None	10.35	92	
Public Service of N. J.....	8	8.00	None	10.35	105	
Puget Sound Pwr. & Light..	5	5.00	27.50	23.61	98	Early payment of all accrued dividends.
Twin City Rapid Transit....	7	3.50	49.00	7.91	67	Outlook for payment of some of accrued dividends soon.

Manpower Shortages

The demand of the armed forces and the munitions plants for men is steadily increasing. It is going to be a factor which will adversely affect some businesses before long, most particularly those which have a very large proportion of their total costs in labor. This applies to the department stores and the mail order houses. Offsetting this is the fact that the demand for goods at retail promises to continue of record proportions. The store stocks have been doing very little marketwise and may have discounted the adverse labor position.

Long War? Or Short?

The length of the war will make a great difference to many industries. There is no place where more concern over this question is shown than among the holders of paper company securities. It is presumed that when the war ends, there will be a flood of paper and pulp at low prices from the Scandanavian countries. It is because of this fear that the paper stocks have not acted well since the first months of the war. If the war lasts for a long time, however, it would result in the building up of some huge profits by many of the paper companies. A case in point is St. Regis Paper which is earning at a rate which would warrant paying off all of the $70 a share accrued dividends on the preferred. There was some plan for taking care of this accumulation earlier this year, with a new preferred to be issued to take care of it. The plan seems to have been given up for the time, however, as the company paid two regular $1.75 a share dividends on the preferred, the first on July 1 and the other on October 1.

Steels Come Into Their Own

No part of the market had acted as badly as the steel stocks. Only two weeks ago, some of the leading steels were near the lowest point of this year, which was also the lowest in several years for them. With the general market improvement, U. S. Steel, Bethlehem and various others in this group have moved up briskly. It is likely that they will continue to be with the leaders, if there is a further general advance, but it is not likely that they will do more than equal the highs made early in 1942. At about that level, it is to be expected that the steel shares will run into a lot of profit taking.

Meanwhile, steel mill operations continue close to capacity.

Another Look At...

AMERICAN SNUFF—ARCHER-DANIELS-MIDLAND

BRISTOL-MYERS—CHICAGO PNEUMATIC TOOL

UNITED AIRCRAFT

By The Magazine of Wall Street Staff

American Snuff Co.

Stability of demand, with comparatively narrow fluctuations in sales, characterizes activities in the snuff division of the domestic tobacco industry. Providing, as it does, one of the most economical means of tobacco consumption, snuff is sold principally in the Southern states, where the lower per capita income prevails.

American Snuff Co., occupies second rank in its field, accounting for approximately 30% of the aggregate amount of snuff sold in this country. Principal brands, "Garrett," "Honest," and "Dental," are produced at factories in Memphis and Clarksville, Tenn., and are marketed almost entirely in the South.

Sales expansion has been constant over the past few years, with the total exceeding $8,300,000 in 1941, against approximately $8,000,000 in the previous year. Earnings were but little changed, amounting to $2.64 and $2.66 per share of common, respectively, in 1941 and 1940. Attesting further to the constancy of demand for snuff regardless of general economic conditions is the fact that profits of $4.26 per share in 1929, a year of universal prosperity, were only $0.67 per share above those registered in the depression year 1932. Stock market prices for the common in those years also reflected the strong investment characteristics of this issue, with a peak price of 49 in 1929, comparing with a low of 21¾ three years later, or a drop of only about 55%. This recession was in favorable contrast to the decline of 89% which occurred in the Dow-Jones industrial stock averages between 1929 and 1932.

Although the company does not issue interim reports, nation-wide snuff consumption is stated to have risen 8% in the first half of 1942. Sales of this concern doubtless benefited. Balance sheet as of December 31, 1941, revealed an enviable financial position, with cash and marketable securities alone totaling $6,646,000, as against current liabilities of only $1,194,000.

Payments have been made on the common in every year since 1903. Dividends to date in 1942 were equal to $2.80 per share of common, including special payment, compared with $3.25 annually during the preceding decade. Higher costs and taxes may check earnings progress, but the present dividend basis of $0.60 quarterly appears secure. On this basis, the common shares provide a conservative yield of over 5% at prevailing market quotations.

United Aircraft Corp.

War-time considerations, of course, dominate activities of all organizations engaged in the aviation industry. Although actual production of aircraft is a military secret, some idea of the participation of United Aircraft Corp., in the military program may be gained by the fact that sales in the aggregate of nearly $244,000,000 in the first half of 1942 were approximately twice those of the six months ended with June 30, 1941. Although costs and taxes rose substantially, net income for the half-year advanced to nearly $7,000,000 from $5,583,000 in the 1941 interim. Issuance of 265,669 shares of preferred in January, 1942, distorts the net results on the common stock, but profits on this issue were equal to $2.37 per share for the six months ended June last, compared with $2.11 per share in the similar period a year earlier.

The principal production problems facing the airplane builders today are those of securing sufficient supplies of materials and labor. In view of the indispensable role played by aviation in the nation's war effort, it is evident that every effort will be exerted by the appropriate Government agencies to provide a constant flow of vitally needed raw materials in order to assure completion of the huge volume of business now on the books of this and other leading airplane and aircraft engine builders.

The renegotiation clause in Army and Navy airplane contracts is another factor that will have an important bearing on future profit margins. In this connection, it is stated that sums relinquished to the Navy by this company in the form of savings under the contract price resulting from large scale operating efficiences for the fifteen months ended March 31, 1942, amounted to $26,000,000. The alternative legislative proposals to limit profits to 5% after taxes should not be unfavorable, as few companies will earn 5% on sales this year.

Dividends of only $1 per share have been paid on United Aircraft common to date in 1942, as against $4 in 1941 and $3.50 in 1940. Added disbursements on this issue may be deferred until enactment of the pend-

ing tax bill. This issue is one of the soundest in the aircraft industry and retention is advised.

Bristol-Myers Co.

The truth of the slogan: "It pays to advertise," is convincingly demonstrated in the sales record of Bristol-Myers Co. over the past seven years. Without a single corporate acquisition since the summer of 1934, sales of this pharmaceutical organization, aided by aggressive promotion and the development of new lines, have risen from less than $10,000,000 in that year to nearly $22,-500,000 in 1941. Bristol-Myers ranks third among the American makers of proprietary drug products, among its best known items being "Ipana Tooth Paste," "Sal Hepatica," "Ingram's Shaving Cream," and several other widely advertised products. Main plant of the company is located at Hillside, N. J., and output is distributed throughout the United States and in about 50 foreign countries.

Although no interim sales figures are available, the tremendous demand from military and civilian sources has doubtless sustained sales at levels perhaps approximating those of the past year. It is possible that further expansion in output has been retarded by shortages of certain raw materials, especially alcohol. Research activities to develop suitable substitutes, however, may overcome the effets of such handicaps.

Following establishment of a post-depression earnings peak in 1940, profits receded moderately last year. Large tax allowances in the first half of 1942 reduced earnings for the six-months period to $1.50 per share of capital stock from $1.96 per share in the comparable 1941 months, and indications are that net income for the full year will be considerably under the $3.56 per share reported for 1941.

Well-maintained earnings and a strong current position have permitted a liberal dividend policy in recent years, with disbursements of $2.55 per share being made in 1940 and 1941. However, the need for conserving cash in view of tax uncertainties has impelled a more conservative dividend policy this year, and payments to date amount to only $1.50 through September 1. On the present basis of $0.40 quarterly, the return is not attractive, but the company's strong trade position warrants retention of the issue.

Chicago Pneumatic Tool Co.

The baneful effects of heavy Federal taxes are seen in study of operating figures of Chicago Pneumatic Tool Co. for the first six months of this year. Although net income before taxes totaled $6,350,000 for the half year, as against only $3,522,000 for the same months of 1941, the substantially increased allowances for Federal income and excess profits taxes depressed income available for the common to $2.14 per share from $2.56 in the similar 1941 period. This marked the first reversal in earnings progress since 1939. Profits last year were equal to $6.15 a share on the common stock.

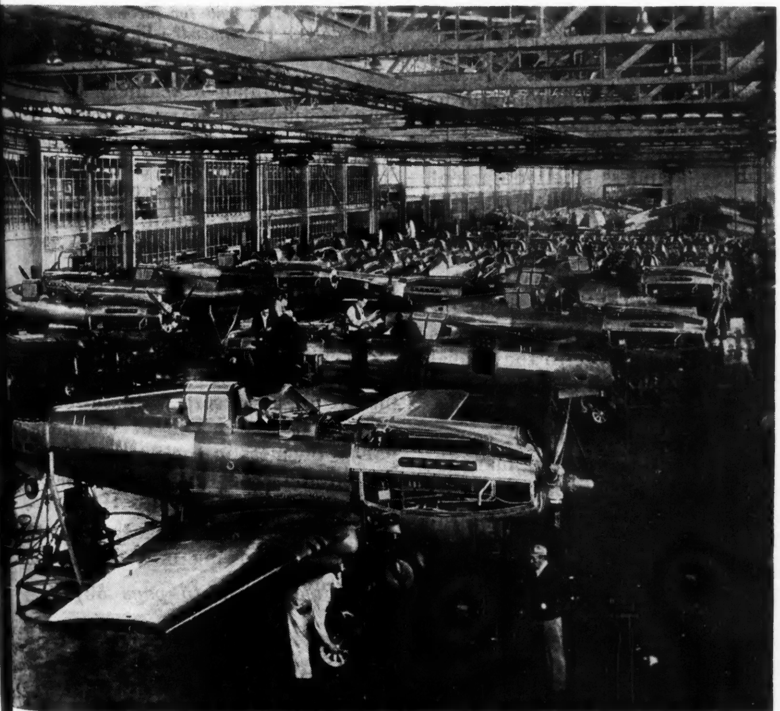
Chicago Pneumatic Tool is the world's largest maker of pneumatic machinery and tools, other lines including fuel oil and gas engines, and oil engines of the Diesel type. Products are widely utilized in steel construction, foundry work, shipbuilding construction, railroad, aviation, mining, and in other industrial fields.

Stimulated by unprecedented demand from many industries engaged in war activities, unfilled orders are reported to be the largest in the company's history, while large tool and other equipment needs, particularly from aviation and shipbuilding, assure high operating levels perhaps for the duration. It is stated, moreover, that the company is engaged in direct production of other vitally needed war equipment.

Financial position of the company at the end of 1941 was sound, with working capital being about 43% of total assets. Cash was equal to over $7 per share of common. Dividends were resumed in 1941, with payments of $1.50 per share of common, being the first distributions since 1928. Disbursements on the junior equity issue through Oct. 1, 1942, amount to $2.00, and it is probable that the prevailing $0.50 quarterly rate may be continued, despite the outlook for lower net income, at least over the near future. The company had no outstanding funded debt nor bank loans, according to the company's balance sheet of Dec. 31, 1942, and capitalization was fairly conservative.

As a speculation this issue may be considered fairly attractive.

(Please turn to page 47)



Principal problem of airplane builders is supply of labor and materials to maintain production speed. Renegotiation clause in Army and Navy contracts will have an importnt bearing on future profit margins.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Simmons Co.

I notice that Simmons Co. reported earnings of $1.61 per share for the first six months of 1942, this being much larger than for the same months last year. This seems gratifying in view of higher taxes. Do you think the company may do as well in the final half of the year? I have 200 shares which cost around $18 and am thinking of "averaging down" at present market prices. Do you consider this advisable, or would it be better to place my cash in some other issue in order to diversify my holdings?—E. A. T., New Haven, Conn.

Simmons recently announced a dividend of 35 cents a share to stock of record October 6. This was a reduction of 15 cents per share from the 50 cents previously paid and the question arises as to causes. The consolidated net income for six months ended June 30, 1942 showed net sales at the tremendous figure of $37,603,143 an increase of $11,000,000 or 42 per cent from the prior year's figures. Net profit, before income taxes, was $5,371,203 against $3,237,564 for the like prior period, an increase of 70 per cent. Taxes rose at the same time nearly 100 per cent being $3,200,000 against $1,675,000. Net profit managed to gain in dollars, however, being $1.62 per share compared with $1.09 for the same six months of 1941. The report called attention to the fact that the first six months of 1942 encompassed what was probably the greatest boom the country has ever experienced. War is requiring the discontinuance of the use of many raw materials and effort is being made to fully occupy manufacturing facilities with government work. Not only are Simmons furnishing hospital beds, stainless steel equipment for Army and Navy hospitals, berths for troop transports, stretchers and much other "regular" equipment, but is understood to be making bomb casings and shipping boxes for ammunition. The company calls attention on this score to the official notice of cancellation of a large contract for munitions originally scheduled for the main plant. A severe blow to the concern, the management predicts for the last half, no more than a nominal profit at best. Simmons is unfortunate in being somewhat vulnerable to totalitarian war conditions. Considering its magnificent record, able management, sound capital position, its future under peace is assured. War is not likely to bring great earnings and while conditions do not warrant liquidation, short term prospects are not favorable enough to warrant increasing holdings in a wartime dictated portfolio.

U. S. Hoffman Machinery Corp.

I am somewhat concerned over the poor market action of U. S. Hoffman Machinery Corp. of which I hold 200 shares of common that cost me $8 a share last year. I am told that the company has been receiving some Government business, in place of the normal lines on which production has been reported to have stopped. What are the chances of a dividend being paid on this issue? I would like to get some return on my money, and I am wondering whether it would be advisable to switch to a dividend payer at around present prices, or hold for further recovery. What do you recommend?—W. C. H., New Orleans, La.

U. S. Hoffman Machinery Corp., manufacturers of garment pressing machinery, have paid no dividends since 1930—and with earnings for the first six months of 1942 at only 80 cents a share, down 89 cents a share from the $1.69 earned in the same period of 1941, none is in prospect for this year or the near term future. Income and excess profits taxes amounted to $377,331 against $476,688, presenting the unusual picture of a concern with lowering current taxes. Much of the company's business in the past was conducted on the instalment basis, presently frowned on by the Government in its anti-inflation fight, the results showing in a decline of

(*Please turn to page* 50)

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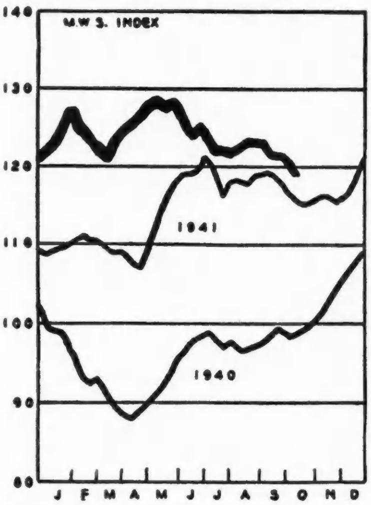
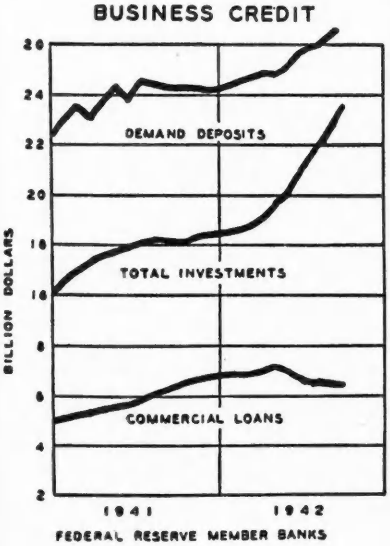
The Business Analyst

BUSINESS ACTIVITY



BUSINESS CREDIT



CONCLUSIONS

INDUSTRY—Manpower planning urgently needed to avert chaos in our war effort.

TRADE—Wartime decline in number of business establishments will come more from slump in new ventures than from any startling rise in closings.

COMMODITIES—Pending definite Washington control action, mixed trends mark trading; cotton up, wheat down.

MONEY AND BANKING—Circulation rise due largely to failure of war workers to return their cash savings to the banks.

The drop of more than a point in per capita **business activity** during the past fortnight has been caused entirely by an upward revision in estimated **population**, which has grown surprisingly during the past year as a result of a mounting birth rate. Without adjustment for population growth, this publication's index of Business Activity actually rose more than a point during the past fortnight. For September, the index declined to 144% of the 1923-5 average, from 145 in August; but was still 4% above September, 1941. Average for the third quarter was 145—4.8% above the like period last year—compared with 150 for the second quarter and 147 for the first quarter. Nine months' average was 147—11.1% ahead of the like period last year.

* * *

War expenditures rose to around $5.8 billion in September, absorbing about 43% of the estimated national income for that month, and causing a 27% drop within a year in the physical output of goods and services available for civilian use. Mr. Leon Henderson's assertion that **living standards** must go down to 1932-3 levels is thus scarcely surprising, but needs to be clarified. In the depression years there were two living standards—subnormal for the millions who were unemployed, and virtually normal for the far greater numbers who remained at work. Mr. Henderson evidently refers to the average. But reversion to such a low average standard in

(Please turn to following page)

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Aug.	183	180	161
INDEX OF PRODUCTION AND TRADE (b)	Aug.	120	118	116
Production	Aug.	128	126	116
Durable Goods	Aug.	146	143	124
Non-durable Goods	Aug.	113	112	110
Primary Distribution	Aug.	133	134	119
Distribution to Consumers	Aug.	94	89	115
Miscellaneous Services	Aug.	126	124	105
WHOLESALE PRICES (h)	Sept.	99.4	98.9	91.2
COST OF LIVING (d)				
All items	Sept.	98.6	98.1	90.8
Food	Sept.	102.8	101.1	89.4
Housing	Sept.	90.8	90.8	88.9
Clothing	Sept.	88.4	88.2	76.9
Fuel and Light	Sept.	90.5	90.4	89.4
Sundries	Sept.	104.7	105.0	99.8
Purchasing Value of Dollar	Sept.	101.4	101.9	110.1
NATIONAL INCOME (cm)†	Aug.	$9,269	9,435	7,518
CASH FARM INCOME†				
Farm Marketing	July	$1,219	1,070	889
Including Gov't Payments	June	$1,125	1,030	798
Prices Received by Farmers (ee)	Sept.	160	161	136
Prices Paid by Farmers (ee)	Sept.	152	152	138
Ratio Prices Received to Prices Paid (ee)	Sept.	107	107	102
FACTORY EMPLOYMENT (f)				
Durable Goods	July	163.0	155.9	140.7
Non-durable Goods	July	126.1	124.6	126.3
FACTORY PAYROLLS (f)	July	202.4	197.7	152.7
RETAIL TRADE				
Retail Store Sales $†	July	$4,389	4,445	4,509
Durable Goods (a)	July	104.8	100.1	169.5
Non-durable Goods (a)	July	156.0	146.8	137.0
Chain Store Sales (g)	Aug.	182	177	151
Retail Prices (s) as of	July	113.1	113.1	99.6
FOREIGN TRADE				
Merchandise Exports†	July	$623	$604	$355
Cumulative year's total† to	July	3,986	......	2,398
Merchandise Imports†	July	233	201	264
Cumulative year's total† to	July	1,597	......	1,776
RAILROAD EARNINGS				
Total Operating Revenues★	Aug.	$683,806	665,181	493,674
Total Operating Expenditures★	Aug.	399,292	390,476	313,843
Taxes★	Aug.	132,893	125,838	56,756
Net Rwy. Operating Income★	Aug.	135,264	133,001	111,411
Operating Ratio %	Aug.	58.39	58.70	63.57
STEEL				
Ingot Production in tons★	Sept.	7,067	7,233	6,811
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	Aug.	1,788	1,765	1,753
GENERAL				
Paperboard, new orders (st)	Aug.	423,399	393,968	565,853
Lumber Production† (bd. ft.)	Aug.	2,902	2,967	3,124
Cigaret Production†	Aug.	20,940	20,875	17,777
Bituminous Coal Production★ (tons)	Sept.	48,760	47,160	47,505
Portland Cement Shipments★ (bbls.)	Aug.	21,282	20,501	17,825
Commercial Failures (c)	Aug.	698	764	954

PRESENT POSITION AND OUTLOOK

(Continued from page 39)

the months to come, when unemployment will be at a minimum, is going to have a reversed incidence: living standards of then unemployed, but now employed, workers will rise above depression levels while families who lived well throughout the depression period will have to tighten their belts until it hurts. The danger politically is that a long war may crush the normally conservative middle class, and bring an economically illiterate class into power.

* * *

The President's commendably prompt action in clamping a semblance of ceilings on wages and prices should slow, but not stop, the rise in living costs. So long as civilian expenditures exceed the diminishing supply of civilian goods and services, administration of the new restraints will present amost insuperable difficulties. We still maintain that the best way to combat **inflation** is to impress war workers with the importance of saving against post-war uncertainties. It is a matter of common observation that youngsters who know nothing of the value of money are squandering their war padded pay envelopes without regard to their post-war future.

* * *

A quite understandable failure to foresee the speed with which our combat power would have to be built up has suddenly confronted the nation with an acute manpower situation. The first step toward bringing order out of the presently threatened chaos is to realize that, in a total war, all civilians are an essential part of the huge war machine. There must be factory workers to supply implements of war, food and clothing for the armed forces; other workers to supply food, clothing and shelter for the war workers; and still other reserves to supply those who supply those who supply the war workers. If the Army is oversupplied, essential civilian workers will be undersupplied.

* * *

The Federal Reserve Board has authorized a third reduction of 2% in **reserve requirements** at New York and Chicago, thereby lowering reserve requirements in all large cities, reserve and central reserve, to a uniform 20% of demand deposits. Under the present law, further reduction in requirements at New York and Chicago can be made only by like reductions in reserve cities also. A breakdown of **circulation** statistics indicates that the extraordinary rise of recent months is attributable largely to the phenomenal expansion in **payrolls** (up 25% in the past 12 months) and lack of familiarity on the part of wage workers, especially among the millions who have found gainful employment for the first time in their lives, with the many advantages of maintaining a bank account, rather than to uneasiness over what the war or the Government may do to bank deposits. Prior to the war, banks had huge idle resources for which they could find no safe and profitable outlet. Small accounts became an

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Sept. 26	118.9	120.6	116.9
ELECTRIC POWER OUTPUT				
K. W. H.†	Oct. 10	3,682	3,720	3,330
TRANSPORTATION				
Carloadings, total	Oct. 3	907,607	897,714	917,896
Grain	Oct. 3	50,557	47,948	40,340
Coal	Oct. 3	169,075	171,728	170,414
Forest Products	Oct. 3	49,537	50,062	46,440
Manufacturing & Miscellaneous	Oct. 3	432,014	425,757	396,849
L. C. L. Mdse	Oct. 3	91,842	89,865	161,316
STEEL PRICES				
Pig Iron $ per ton (m)	Oct. 8	23.61	23.61	23.61
Scrap $ per ton (m)	Oct. 8	19.17	19.17	19.17
Finished c per lb. (m)	Oct. 8	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Oct. 8	99.0	99.5	98.5
PETROLEUM				
Average Daily Production bbls.★	Oct. 3	3,684	3,909	3,860
Crude Runs to Stills Avge. bbls.★	Oct. 3	3,879	3,802	4,052
Total Gasoline Stocks bbls.★	Oct. 3	80,361	80,550	79,923
Fuel Oil Stocks bbls.★	Oct. 3	79,036	78,493	94,978
Crude—Mid-Cont. $ per bbl	Oct. 12	1.17	1.17	1.17
Crude—Pennsylvania $ per bbl	Oct. 12	2.55	2.55	2.23
Gasoline—Refinery $ per gal	Oct. 12	0.092	0.117	0.85
ENGINEERING CONSTRUCTION				
Volume★ (en)	Oct. 8	$78,661	203,321	139,855

PRESENT POSITION AND OUTLOOK

expensive luxury and were discouraged. Now that reserves are shrinking the banks may sooner or later again find it desirable to woo the small depositor. During the past 12 months, **"money in circulation"** (currency outstanding in hands other than the banks and Treasury) increased $3 billion, or 31%. Coin and small bills, reflecting greater business needs, rose only $0.4 billion, or 17%; $10 and $20 bills, in large part revealing cash hidden in old socks and under the mattress, leaped $2 billion, or 44%; while bills of larger denomination, mostly for genuine hording, were up only $0.6 billion, or 22%.

* * *

During the four weeks ended Sept. 26, **department store sales** were 8% above the like period last year, compared with an increase of 12% for the year to date. Value of **wholesale sales** in August was 2% ahead of a year earlier. Much publicised estimates that the war may close 300,000 or 18% of all retail stores, by end of 1943 is far from sensational. Even if concentrated within a single year the rate of closings would be below normal. Crepe hangers fail to reckon with the resourcefulness of American business men. Men's clothing stores, for example, are now planning to add women's apparel. Decline in number of business establishments during the war will come more from slump in new ventures than from any startling rise in closings.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

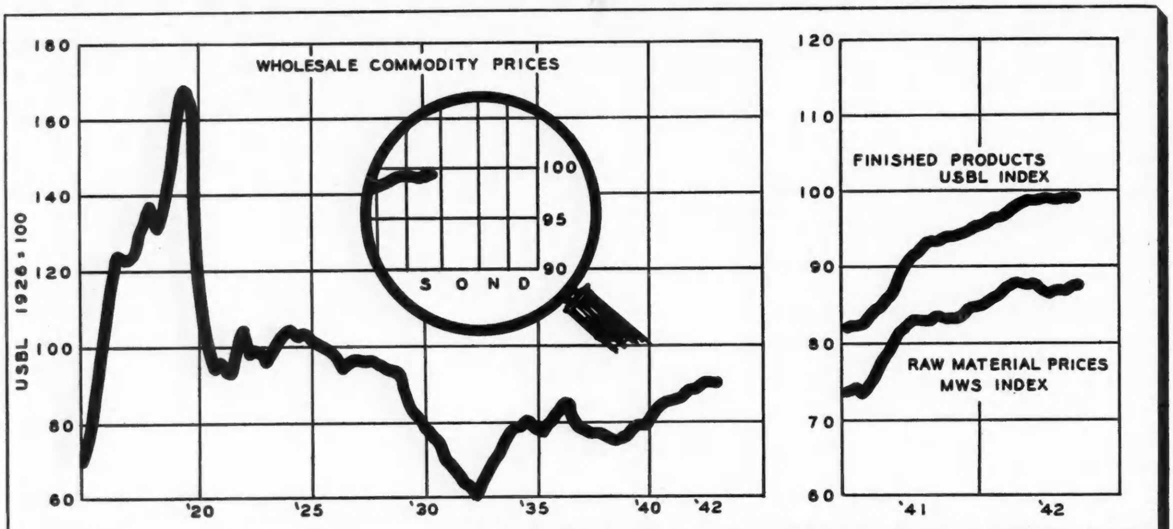
No. of Issues (1925 Close—100)	1942 Indexes High	Low	Oct. 3	Oct. 10
270 COMBINED AVERAGE	52.8	41.4	49.9	52.8A
3 Agricultural Implements	89.2	72.7	86.0	89 2A
9 Aircraft (1927 Cl.—100)	172.6	123.8	156.4	123.8
4 Air Lines (1934 Cl.—100)	314.6	178.4	311.1	314.6A
5 Amusements	39.9	27.0	38.6	39.9C
13 Automobile Accessories	83.7	70.4	80.0	83.7A
13 Automobiles	10.7	7.1	9.8	10.7A
3 Baking (1926 Cl.—100)	7.0	5.0	6.7	7.0A
3 Business Machines	117.0	81.7	108.4	117.0B
2 Bus Lines (1926 Cl.—100)	64.6	38.2	53.2	59.8
6 Chemicals	156.3	126.3	150.1	154.0
14 Construction	20.7	16.4	19.8	20.7A
5 Containers	163.1	138.4	158.6	160.7
8 Copper & Brass	75.1	58.6	67.5	71.7
2 Dairy Products	30.1	25.5	29.6	30.1B
6 Department Stores	16.3	12.4	15.2	15.4
6 Drugs & Toilet Articles	45.5	37.1	44.4	45.5
2 Finance Companies	140.8	99.5	137.6	140.8A
7 Food Brands	78.6	60.6	72.9	74.7
2 Food Stores	43.7	32.2	39.8	37.2
4 Furniture	31.3	23.7	28.7	31.3A
2 Gold Mining	455.9	315.4	379.4	341.9
6 Investment Trusts	18.5	13.8	17.3	18.5A

(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	Oct. 3	Oct. 10
100 HIGH PRICED STOCKS	52 75	43.20	51.24	52.75
100 LOW PRICED STOCKS	41.58	31.66	38.84	41.58A
3 Liquor (1932 Cl.—100)	194.3	137.5	193.6	194.3D
8 Machinery	83.8	67.9	79.2	81.2
2 Mail Order	57.7	45.2	57.0	57.7A
4 Meat Packing	46.0	29.5	31.1	36.3
9 Metals, non-Ferrous	131.7	100.0	111.2	119.4
3 Paper	11.3	8.8	9.4	9.3
21 Petroleum	81.5	59.8	75.6	81.5A
16 Public Utilities	20.3	13.7	17.7	20.3A
3 Radio (1927 Cl.—100)	10.4	5.9	9.8	10.4B
7 Railroad Equipment	37.9	28.6	33.7	36.0
16 Railroads	10.8	7.6	10.6	10.8A
2 Realty	2.1	1.3	1.9	2.1
2 Shipbuilding	112.0	84.2	96.5	101.2
12 Steel & Iron	65.0	53.1	60.6	62.8
2 Sugar	40.1	26.5	31.6	33.0
2 Sulphur	182.2	137.5	176.9	182.2A
3 Telephone & Telegraph	49.6	30.6	48.4	49.6C
2 Textiles	34.2	24.4	30.9	34.2
3 Tires & Rubber	15.3	7.9	14.7	15.3B
4 Tobacco	55.3	40.7	48.6	49.4
2 Variety Stores	187.2	147.7	177.5	175.4
19 Unclassified (1941 Cl.—100)	119.9	90.8	108.6	119.6A

New HIGHS since: A—1941; B—1940; C—1939; D—1938.

Trend of Commodities

As the outlook for commodity future exchanges remained uncertain following the passage of the Anti-Inflation Act, together with the President's Executive Order and the O P A "temporary" price freezing regulation, the future influence of commodity trading and price trends on the nation's economic structure has become equally obscure. On the one hand, it is an open question whether any organized commodity exchange will be able to function actively. The established government policy now calls for both ceilings and floors for commodities. This will operate commodity men believe to restrict trading. The smaller the spread between these two controls, the less the incentive for hedging and trading becomes is obvious. With both latter economic incentives either practically obliterated, or at least largely strangulated, there naturally will be no market operations sufficient in volume to affect price trends or attract trading volume. In the meantime, those officials closest to the White House are inclined to believe that price control and futures trading just don't mix. On the other hand, there are traders and some government officials who still believe that trading will continue. Further developments alone will reveal the ultimate position futures will occupy in our War Economy.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1929, equal 100

	Oct. 2	Sept. 25		Oct. 2	Sept. 25
28 Basic Commodities	169.9	169.4	Domestic Agricultural	188.1	186.4
Import Commodities	162.8	162.7	Foodstuffs	191.2	190.3
Domestic Commodities	174.6	173.9	Raw Industrial	155.3	155.1

Commodity Briefs

Coffee. Members of the coffee trade sharply deprecate newspaper reports of a near famine in this popular beverage commodity. They claim stocks are sufficient for three months requirements under existing Government restrictions. Stocks on hand are estimated at 2.8 million bags, compared with 4.6 million bags on hand a year ago. Imorters also confidently anticipate, because of improved shipping prospects, early increased Brazilian shipments. Because of emotional consumer purchasing habits, however, rationing of this commodity appears inevitable.

Tea. Stocks on hand are now estimated as sufficient to meet present restricted demand for at least a six months' supply. In addition the prospects for continuing additional imports from overseas are reported as definitely good. The supply as of October 1, is placed at 28 million pounds, an amount sufficient to meet the demand through the first quarter of 1943 under existing quota restrictions. As in the case of coffee, rationing of tea is quite probable because of unrestrained consumer pressure.

Cotton. The holding movement among cotton farmers, started several weeks past by Southern Senators, apparently is not getting anywhere. Instead of putting their staple in the loan facilities provided by the Commodity Credit Corporation, as these Senators advised, many farmers are marketing their cotton at a price in excess of recent years. With the passage of the recent Price Control Act, the movement by farmers to sell in the market has been accelerated, and now is running well above 30 per cent larger than a year ago.

Butter. Following five weeks of rather sharp seasonal declines, creamery butter production for the week ended October 1 decreased only 1 per cent from the preceding week, according to U. S. Department of Agriculture reports. It was significant, however, that existing butter supplies are sharply shrinking as production compared with the corresponding 1941 date reflected a 54 per cent decline.

Cocoa. Little cocoa continues to filter into the country. Its volume is abnormally limited. In the meanwhile the visible supply available for domestic consumption continues to consecutively diminish monthly. Stocks in licensed warehouses have fallen under the 400,000 bag mark for the first time in ten years.

Sugar. Raw sugar receipts at all U. S. ports for the week ended September 26 totaled 45,659 tons, compared with 64,512 tons in 1941. In the Northeast, the critical supply area, arrivals totaled 21,189 tons, against 37,492 tons the previous week, while stocks declined from 54,073 tons to 50,014 tons. A year ago refiner's stocks were 133,514 tons.

New Outlook for the Paper Industry

(*Continued from page 23*)

ularly with respect to newsprint. A partial offset is provided in the considerable market for the company's pulp output in the production of rayon. Earnings for the full year 1942 will doubtless be well under last year's results, which were equal to $17.55 and $6.37 on the preferred and common stocks. Since clearing of all accumulations last year, dividends on the preferred have been maintained on a $5.00 annual basis. Doubts as to its continuance find reflection in current quotations for the preferred, but in view of the company's excellent financial condition and dominant trade position, the senior equity issue might be acquired as a speculation on the favorable long-term prospects of International. The common, on which no dividends have been paid, is unattractive.

Taxes have cut deeply into recent earnings of Sutherland Paper Co., and net for the second quarter was only $0.36 per share of capital stock, as against $0.97 in the same months of 1941. Continued heavy sales of paraffined containers, of which this concern is the largest American manufacturer, are anticipated, with operations aided by plant expansion, now approaching completion. Inasmuch as finances are sound, and assuming that the $1.20 dividend will be covered by a fair margin for 1942, the stock could be acquired for conservative income. Dividends have been paid in varying amounts each year since 1923.

Closing of two paper mills of Union Bag & Paper Co., late in September, for lack of orders, reflects the recession in civilian needs for certain types of paper. In this connection, it was officially stated that reopening might depend upon orders originating in some phase of the war effort. Although profits for the first half of this year were improved over the same months a year earlier, an important drop in net income for the full year 1942 is probable. In this connection, dividends have recently been cut to a basis of $0.15 quarterly, from the $0.25 quarterly

rate that prevailed during 1940 and 1941, and in the first half of 1942. The company's strong finances should enable continuance of the reduced rate, at least for the near future, and on this basis a yield of about 8 per cent is provided.

It will thus be perceived that, notwithstanding large war business on the books of certain paper manufacturers, the earnings prospects of these concerns, in general, are far from impressive. Labor shortages are growing, while inadequate transportation facilities have inspired an order by the WPB to eliminate nation-wide cross-hauling of pulp. Moreover, the substantial excess of productive capacity, considered in connection with receding commercial demand, also presents a formidable barrier to operating progress in future years, while price structures may be disrupted by resumption of Scandinavian pulp imports after the end of the war. Continuance of high yields in certain paper issues is not assured. A policy of conservatism and of discrimination, therefore, is essential with respect to holdings of equity issues in all departments of the paper industry.

Six Attractive Utility Preferreds Priced Well Under Liquidating Values

(*Continued from page 27*)

$20.86 per share. The company, under its dissolution program, has exchange about a third or more of its preferred stock for the common stock of Houston Lighting, a subsidiary. The preferred now has virtually a first claim on the substantial assets (bonds have been retired), and long pull holders would seem to have good expectations of obtaining par for their stock, while in the meantime an excellent income is received.

Electric Power & Light $7 preferred is selling for about three times the recent earnings, which exceeded $10 a share on a consolidated system basis. The principal subsidiary, United Gas, which operates a large natural gas system in the south, has enjoyed rapidly increasing earnings in the past year due to increased war demands for gas. Electric Power & Light's dissolution was recently ordered by the S E C. Before this can be completed some new plan must be worked out for recapitalizing United Gas, which owes nearly 53 million dollars to Electric Bond & Share. Electric Power & Light (controlled by Electric Bond) owns the entire second preferred and a substantial amount of the common of United Gas. These complex relationships will eventually be adjusted (one plan failed early this year due to the opposition of a common stockholder of Electric Bond & Share). When that is accomplished Electric Power & Light will probably be in a position to distribute dividend paying common stock of United Gas to its own stockholders, along with other assets. First, however, it will be necessary to retire some $30,000,000 bonds, currently selling around 90. It is estimated that after allowing for such retirement, the equity remaining for preferred stockholders might well amount to double the present market value of the stock—or more if the tax burden is lightened.

Electric Power & Light 2nd preferred, selling on the curb around 5, would also seem to have speculative possibilities because of the very small amount outstanding—about one-tenth of the amount of 1st preferred. Should this stock with its large arrears be permitted to participate in the distribution of assets to the extent of only 5%, it would still be entitled to sell at around half the value of the 1st preferred—which figure at present would be nearly three times its current price level. However, the holder would be dependent on the good-will of the S E C for participation, since there is no equity at present; in this connection the pending United Light & Power plan may establish an important precedent.

American Power & Light $6 preferred is currently around 20, and offers an extremely high yield, since current quarterly dividend payments are at the rate of $3 per annum. The company is able to pay out a very substantial part of system earnings, for these earnings are less than half those reported for Electric Power & Light preferred—which recently passed its small dividend. While the liquidating value of this stock would probably be less than that of Electric Power preferred (the Company has also received an S E C order to dissolve) the low price level makes it an interesting stock in its class.

The current dividend rate cannot be considered assured, however, as the Company faces possible readjustment of its holdings in Florida Power & Light, and partial or entire loss of income from that source.

Investment Audit of Bendix Aviation

(*Continued from page 29*)

Thus, from the standpoint of potential dividends, one obviously should have a more solid basis for calculation when the September 30 balance sheet becomes available.

While Bendix appears reasonably priced—indeed, attractively priced—on the basis of war time earnings outlook, it must be noted that present price is about 22 times the highest earnings of the best pre-1939 year—which was 1935. If it had to be assumed that $1.50 per share is about the top potential for Bendix in peace time, as superficially suggested by the prior record, then one might figure—on, say, a 10-times earnings ratio—that the "normal" or peace time earnings potential accounts for $15 of the present price of $34, leaving the marginal war earnings presently capitalized at $19 or roughly 2.2 times. The latter ratio is not far out of line with price-earnings ratios of such speculative "war stocks" as Worthington Pump or Baldwin Locomotive.

But such an approach is quite faulty. It stands to reason that over, say, the five years after the end of the war the Bendix volume and operating profit will be very substantially larger than they were over the five years prior to the war. Despite the name, Bendix in the 1935-1937 period was primarily an automobile accessory company. Today it not only has a new and very able management, but a far stronger and much more widely diversified trade position and prospect. It will not merely return to the automobile parts business—although prospects therein look very good for the post-

war period and Bendix, because of successful new product development, has a much better than even chance of bettering its former share of this business. The biggest long term promise for Bendix is its strong stake in the glowing future of commercial and civilian aviation—aside from which military replacement business, do to high rate of technical obsolescence in combat planes, will be very substantial for some years after the war, if not indefinitely.

Nor is aviation the whole story. No limit can be set on the future scope and character of Bendix operations. Basically, the corporation is composed of a large number of smaller companies which have been acquired over the years. For maximum efficiency they have been grouped together—under top Bendix administration—into the present divisions and subsidiaries, each of which is essentially an operating unit within itself. Bendix was ideally equipped in organization and engineering "know how" to expand its war production hugely, without dangerous expansion of plant investment, with large reliance on a great number of sub-contractors. With Bendix engineering aid as needed, sub-contractors account for more than a third of Bendix volume. It would not be surprising if some of these eventually become a part of Bendix.

This company puts exceptional emphasis on engineering research. Constantly it is perfecting new technical accessories and seeking new and expanded markets among a wide variety of industries. For instance, last year it spent $6,300,000 on research and development—a sum equivalent to more than 47 per cent of net income. That is a higher relative research expenditure than is made even by most great chemical companies which are popularly supposed to be tops in technical exploration.

The bulk of the present physical expansion of Bendix is Government-financed. To the extent needed, this new plant capacity could be utilized after the war on reasonable terms. By "taking up the slack" in utilization of facilities, big volume tends to lift sharply the operating profit margin as represented by pre-tax earnings. Thus, in rough figures, pre-tax earnings in 1939 were 13 per cent of sales of $42 million; in 1940, 20 per cent of sales of $59 million; in 1941, 23 per cent of sales of $157 million.

To the writer it does not seem fanciful to imagine that Bendix in the several years after the war might average sales of $75 million, perhaps even $100 million; and that the pre-tax margin might be 15 to 20 per cent. Let's do some purely hypothetical figuring. On $75 mil-

lion at 15 per cent, pre-tax earnings would be around $11.2 million; at 20 per cent, $15 million. On $100 million it would be, respectively, $15 million or $20 million.

What about taxes? There'll be no excess profits tax. (And no continuing renegotiation of contract prices.) The effective tax rate would decline through successive revisions. What it might average over the five years, say, after the war is anybody's guess—but the writer will guess 40 per cent at the most. On that basis the above four figures of hypothetical pre-tax earnings would translate into net per share ranging from lowest hypothesis of $3.20 to highest of $5.67. Naturally these considerations are highly conjectural. It is not conjecture, however, to reason that Bendix is ideally equipped to do its great war job and thereafter to re-convert to a very promising peace time business. Markets for the many kinds of technical equipment that it makes will not be as big as during the war but will be substantially bigger than they were before the war—not only due to growth of non-military aviation but to a huge accumulated demand for consumers' durable goods of all types, as well as technical equipment for down-at-the-heels civilian industries. In short, the field in which Bendix operates has a much better than average war and postwar prospect. In this field Bendix is a smart and progressive company with a better than average earnings potential.

General Motors owns about 19 per cent of the outstanding Bendix stock. Last February a General Motors executive—the 45-year-old Ernest R. Breech—was made president and chief executive officer. Aside from Mr. Breech, General Motors also has other representation on the Bendix directorate.

Around 35 now, short-term appreciation promise in the stock seems limited, in the writer's opinion. For longer term speculative-investment, it can be regarded as an attractive buy on moderate recessions. Since it is unlikely to duplicate year's low of 28¼, a reaction of 2 to 3 points would qualify as "moderate."

Five Special Situations for Income and Appreciation

(Continued from page 31)

1942, may contain appreciably larger allowances for such taxes, in anticipation of increased levies to be included in the tax bill now before Congress. Therefore notwithstanding the fact that total income before taxes for the fiscal year recently ended was understood to be considerably in excess of that for the preceding fiscal period, the annual report may reveal net income after tax allowances somewhat under that for the 1940-41 fiscal year.

Dividends to date in 1942 amount to a semi-annual regular payment of $0.50, plus an extra of similar size paid June 10, these comparing with total distributions of $0.75 in 1941 and $0.50 in 1940. Further extra distributions, if any, may await passage of the pending tax bill. Meanwhile, with operations in the cotton and rayon divisions at virtual capacity, continued high revenue levels are assured. Because of the organization's prominent trade position, the post-war prospects are optimistic. At prevailing prices, a generous return is provided, and acquisition for income and appreciation is recommended. Approximate price: 16.

How Much Prosperity Still In Coal Companies?

(Continued from page 705)

Coal Co., one of the top-ranking bituminous producers, for the first six months of 1942, resulted in a profit of $0.53 per share of common, contrasted with a deficit of $0.73 per share in the corresponding 1941 months. Here again, substantial preferred accumulations preclude payments on the common, despite a strong financial status. As a speculation on eventual distribution of, or some other method of clearing, the heavy arrears, which amount to about $138 per share, the preferred shares possess appeal.

Truax-Traer Coal Co., whose operations are largely in the Middle West, showed considerable improvement for the fiscal year ended April 30, 1942, earnings amounting to $1.86 per share of common, compared with $0.92 per share in the preceding fiscal year. Improved operations have found reflection in higher dividends, such payments amounting to $0.77½ per share to date in 1942, as against $0.62½ for the full year 1941, and $0.25 in 1940. Sales prospects continue encouraging, and prices received for output are averaging higher than a year earlier. On an indicated dividend basis of $0.80 per share annually, the common, a yield of approximately 12% is available.

United Electric Coal Companies is the leading domestic factor in the "strip coal" industry. (The "strip" operation may be explained briefly as one by which the earth or overburden is removed from coal veins by electric or steam shovels, leaving the exposed veins readily accessible.) For the fiscal year ended July 31, 1942, the company reported $1.39 per share of common, the only equity issue, compared with $0.70 in the preceding fiscal year. Bank loans were cut moderately during the 1941-42 fiscal year. Continuing heavy industrial demand should sustain operations at improved levels, while profit margins should benefit from completion of the extensive modernization program. No dividends have been on the stock since 1929, and resumption is not probable in the immediate future, in view of restrictions imposed by bank loan provisions. This issue, therefore, possesses but limited speculative appeal.

The high yields currently available in the common shares of certain coal mining common shares reflect consensus of market opinion as to the ephemeral nature of the prosperity now being enjoyed by these organizations.

Restoration of peace-time conditions will witness a recurrence of the severe competitive conditions which have harassed the coal industry in recent years, particularly from petroleum, and to a growing extent, from natural gas and hydro-electric projects. Passing of the war emergency will inevitably be followed by a subsidence of the present abnormal demands for coal, and these factors should be kept clearly in mind in the evaluation of anthracite and bituminous securities.

Status of Axis "Economic Order" in Europe and Asia

(*Continued from page* 18)

miles and more in the case of Burma. This puts an enormous burden on shipping; in fact, in the opinions of some observers, shipping may prove *the* vulnerable spot of the new Japanese Empire.

Japan's merchant marine was put at 5,600,000 gross tons in 1939. With sailing vessels and chartered Indo-Chinese and Thailand tonnage, the total probably exceeded 7,000,000 gross tons last December. The shipbuilding capacity is generally estimated at about 500,000 tons. Some 2,500,000 tons of shipping are, however, said to be used in the coastal trade and in maintaining Japanese armies in China and Manchukuo, while about 2,000,000 tons are estimated to have been converted into naval auxiliaries. Accordingly, less shipping is used in carrying the trade among the various parts of the "Co-prosperity Sphere" than before the war. The Japanese are trying to correct this situation by building a large fleet of small emergency sailing ships. A loss to Japanese shipping of 1,000,000 tons or more is considered serious for the defense of the newly conquered Empire.

The windfall gains of the Japanese conquest in Southeastern Asia—an area more than half the size of the United States, if Thailand and French Indo-China are included, and with a population of about 150 million—have unquestionably been far greater in relation to the expended energy than the German gains in Russia. On the other hand, Japan's economic structure was weaker than that of the Third Reich to start with, and consequently more susceptible to bottlenecks and the drain of large scale warfare. While Japan won a rich prize and got herself into a much stronger military and economic position, the reorganization of new territories is likely to take an even longer time than in the case of the German conquests in the Ukraine and the Caucasus. Lack of capital and skill to build the necessary machinery to open new resources will not be the only difficulty. Even more complex will be the solution of the transportation problem, particularly if the war continues.

On the whole, the German and Japanese economic gains have been quite limited—so far as they relate to military power this year and next.

Another Look At—

(*Continued from page* 37)

Archer-Daniels-Midland Co.

Although the annual report of this company for the fiscal year ended June 30, 1942, presented few details with regard to operations, it was stated, with respect to war-time activities that the concern was "working closely with the Government agencies interested in the storage of grains, the manufacture and distribution of flaxseed and soybean products and certain specialties of importance in the war effort." Archer-Daniels-Midland is a leading manufacturer of linseed oil products of various types, with the paint, varnish and linoleum trades supplying the chief outlets. Through subsidiaries, the company is also engaged in the grain storage business, while its owned Commander-Larabee Corp. operates flour mills in twelve locations, with daily production capacity of over 29,000 barrels.

The nature of the company's operations requires a rather heavy inventory position. Alterations in inventory values, as well as variations in sales volume, have been responsible for wide fluctuations in earnings in the past half-dozen years. While inventory risks cannot be avoided, it is understood that hedging operations are frequently undertaken to reduce such hazards to the minimum. Profits for the 1941-42 fiscal year were equal to $5.68 per share of capital stock, or approximately the same as in the previous year. In other words, the advantage of a 65% rise in sales was offset by higher costs and a sharp increase in taxes. Financial position was fair as of June 30, 1942. Conspicuous among items was an increase in current notes payable to $20,660,000 from $12,400,000 in the previous year, while cash declined to $5,168,000 from $5,725,000. The differences are accounted for in the main by a substantially augmented inventory position.

There are but 544,916 shares of capital stock outstanding, on which quarterly payments of $0.50 per share have been made this year. Lower earnings will probably be experienced during the current fiscal year, while the need for anticipating the large notes payable may impel a more conservative dividend policy in future months. At prevailing prices, the common shares hold but moderate appeal.

Proposal No. 2—By a Banker

(Continued from page 10)

generally and which should govern one in the readjustment of his portfolio.

However, in this instance, I have been asked to make specific recommendations. Therefore, I set forth below the securities which I think should be sold now, the ones to buy for replacement, and comments pertaining thereto:

Sell	*Price*	*Proceeds*
200 American Rolling Mills	10	$ 2,000
100 Columbia Broadcasting "A"	12	1,200
100 Homestake Mining Co.	27	2,700
100 Glenn L. Martin	21½	2,150
250 Nash Kelvinator	6	1,500
100 J. C. Penney	73	7,300
100 Sears, Roebuck	54½	5,450
Total sales		$22,300
Buy		
Bonds		*Cost*
$4,000 New York Central R.R. 5s of 2013	51	$2,040
4,000 Southern Pacific (Ore. L.) 4½s, 1977	55	2,200
4,000 Atlantic Coast Line 4½s, 1964	63	2,520
4,000 Gulf, Mobile & Ohio 4½s, 1975	68½	2,740
4,000 Chicago, Burlington & Quincy Ref. 5s, 1971	75	3,000
Total bonds		$12,500
Preferred stocks (shares)		
25 American Sugar $7 pfd.	83	$ 2,075
50 Crown Cork & Seal $2.25 pfd.	35	1,750
50 Columbia Pictures $2.75 pfd.	29½	1,475
Total preferreds		$ 5,300
Common stocks (shares)		
100 United Aircraft Corp.	28	$ 2,800
50 American Air Lines	38	1,900
Total common		$ 4,700
Approximate grand total of purchases		$22,500

Comments on purchases and sales:

I have expressed myself regarding Sears, Penney and Homestake Mining. Although I have not shown any of Westinghouse Electric & Manufacturing to be sold now, on any appreciable advance in market price, I would sell at least 50 shares in order to have only a reasonable amount invested in one company. I do not consider the other stocks, which I advise selling, as being representative equities.

As regards the purchases, the bonds are speculative issues but interest charges are now covered by a good margin and should continue to be for the duration. In my opinion, they should eventually appreciate in value and provide a good income return in the interim.

Regarding the preferred stocks, American Sugar has paid dividends regularly for fifty years. Its strong financial position permitted dividend payments in years in which earnings were poor, as in 1938. Crown Cork & Seal Co., in 1941 earned $13.02 on its $2.25 preferred stock as compared with $11.23 in 1940. Earnings have declined this year but present price around 35, appears to have amply discounted this. Columbia Pictures Corp. earned $7.37 for the year ended June 30, 1941 on its preferred stock as compared with $6.83 in 1940. For the nine months ended March 31, 1942, it showed $12.56 or more than four times preferred dividend requirements. Financial condition shown in latest balance sheet was excellent, total current assets amounting to $13,594,000 as compared with total current liabilities of $1,704,608, a ratio of 8 to 1.

As regards the purchase of the two common stocks, I like the long term prospects of United Aircraft better than Glenn Martin. I have included American Air Lines, as I think every portfolio should contain an air transportation stock. I believe they have a bright future in the post-war period.

While my suggestions are only a start in the readjustment of this portfolio, it can eventually be arranged to conform with my idea of a business man's portfolio.

The speculative nature of these securities is apparent. The suggested purchases have been selected primarily to recapture loss of principal in the original portfolio and to provide a good income return pending this accomplishment. If, as and when this goal is reached, then funds should be reinvested in diversified bonds with a higher investment rating, the amounts to be determined by the status of portfolio at that time.

I would add the following investment rules for your general guidance:

(a) Own only bonds and stocks of representative companies in essential industries. Buy stocks only on a conservative price-earnings ratio.

(b) Own only stocks which have shown a good earning and dividend record, and which, with the exception of insurance and bank stocks, are listed on a national securities exchange, thereby assuring good marketability.

(c) Own stocks, in approximately equal amounts in various industries.

(d) Generally speaking, endeavor to buy bonds selling at a discount to obviate the possibility of dissipating capital.

(e) The price pendulum swings back and forth each year. There is usually a divergence of 15 to 20 points between the high and low prices. Avoid purchases at high levels.

(f) Do not hesitate to take a fair profit. It may go higher but the one who buys from you is entitled to some profit for the risk he takes.

(g) Subscribe to one high grade financial publication and digest its contents regularly.

(h) Devote your time to your own business or profession and secure the advice of a reliable investment management service.

Proposal No. 3—By an Investment Counsellor

(Continued from page 11)

twelve months even a smaller yield is likely.

Columbia Broadcasting should be avoided for the duration. Governmental regulatory restrictions are going to limit the activities of the company. Furthermore, costs have been rising along with taxes. Decline in income for the past two years is likely to be accelerated.

Your 12.92 per cent representation in the non-ferrous metal group is made up of two dissimilar issues,

Homestake Mining and Kennecott Copper. For some time I have advised sale of Homestake. Now the WPB has halted all gold mining in the United States, to divert miners and equipment to more vital war metals. Homestake does some lumbering and coal mining but profits from these activities are small. With over two million shares outstanding, the $4.50 dividend rate cannot be maintained. Latest balance sheet figures show $7,647,094 in cash and $7,166,841 in marketable securities at cost. These are 95% of current assets and would cover dividend requirements for only about one and one-half years at the $4.50 rate. Admittedly the market has reacted on the bad news already but for dependable income and company progress we suggest a replacement.

Your Kennecott Copper, on the other hand, can be retained, giving you ample position in the non-ferrous metal group for the time being. The stock continues to pay a strong yield and represents a sound inflationary hedge.

Your concentration of 22.14 per cent of capital in merchandising shares should be cut by sale of Jewel Tea and Sears, Roebuck.

The remaining issue in the merchandising group, J. C. Penney, concentrates largely in soft goods which will not be hit so hard by priorities. The company is very well managed and represents an excellent long term investment. Earnings were affected only slightly in the first half when $2.28 a share was reported as against $2.58 in the same period of 1941. Sales in the first eight months of 1942 were up 34 per cent.

I am not impressed with the outlook for P. Lorillard & Co. Last year earnings declined to $1.44 as against $1.69 in 1940. Lorillard will be hard pressed to earn more than the $1 dividend.

In the oil group you are holding Standard Oil of Kentucky and Texas Corp. Because Standard Oil of Kentucky is an oil and gas marketer rather than a producer it will be hit hard by nation-wide rationing. I have been recommending sale of all issues dependent to a large extent on their marketing operations at retail for some time. Texas Corp., on the other hand, has very substantial reserves of crude oil representing a good inflationary hedge and is a well integrated company.

The heavy commitment in Westinghouse Electric should be sold now. While this issue has some merit, funds could work more productively in my selected bond list.

With these sales the account now contains a well selected group of diversified issues which hold considerable attraction.

Suggested Purchases: The above-mentioned sales will bring into liquidation 40 per cent of the investor's holdings in common stocks and this 40 per cent should promptly be diverted into sound second-grade bond situations. I have selected five different bond situations all of which pay substantial income, where interest coverage is at least 2½ times currently. Total railroad bond portfolio will give you wide, geographical diversification.

Face Value	*Security*	*Current Price*
$10,000	Atlantic Coast Line Unif. 4½s, '64	62⅞
20,000	Chicago Great Western inc. 4½s, 2038	38¼
10,000	Gulf, Mobile & Ohio inc. 5s, 2015	53
10,000	Southern Pacific 4½s, '81	52⅝
10,000	Chicago & E. Ill. inc. 5s, '97	31¾

All of these lines are showing expansion in net operating revenues. Atlantic Coast Line in the first six months of this year earned interest charges 4.17 times as against 2.53 times in the same period of the preceding year. Chicago Great Western in the same six months earned 2.91 times versus 2.33 times. Southern Pacific earned charges 2.78 times versus 1.96 times. Gulf, Mobile & Ohio earned their interest charges 3.02 times versus 2.46 times. Chicago & Eastern Illinois earned their interest 3.38 times versus 3.34 times.

Of these five bonds we have purposely selected three income bonds, Chicago Great Western; Gulf, Mobile & Ohio and Chicago & Eastern Illinois. With payment of full interest virtually assured by ample earnings we anticipate a rise in these bonds between now and April. Some time in the next six months if I deem it advisable I shall instruct my clients to take profits. Otherwise, the bonds can be held for the duration, disregarding intermediate fluctuations with assurance of ample income. The yield on this bond portfolio will be slightly more than 10 per cent and will help to relieve the investor of apprehension concerning dividend reduction, rising costs of living and higher taxes.

Comment and Critique

(Continued from page 11)

represents an intelligent search for attractive values. Although a low priced list on the average, it is not as radical as it might seem. It is not a selection of "cats and dogs" picked solely on the basis of price. It does not represent a gamble on a long war or a short war. On the whole, it is a "peace or war" list. Secondary stocks habitually fluctuate more greatly in price than do well known investment favorites. If they are bought at favorable prices and if the major trend of the market is up, they will eventually produce good profits. It should be emphasized that this is not the kind of list that the average investor is equipped to pick for himself.

It should also be emphasized that neither this list, nor those in the other two proposals, can safely be "sat on" for the duration of the war. Too many things, now unpredictable, can happen. For example, some of the equities in all three lists might be hurt by the type of "slow inflation" which squeezes the profits of non-integrated enterprises without necessarily fostering an "inflation bull market."

Rail Bonds

Both the Banker and the Investment Counselor advise a rather heavy stake in speculative rail bonds. It should be realized that in a long-term sense these securities are even more speculative than many common stocks, and that thus they should be held only on an interim basis, depending partly upon the degree of further rise in speculative-investment "sentiment, partly upon war developments. This writer is inclined to assume that at least half of maximum recovery has been seen.

A compromise program for which I think there is much to be said would be: one quarter in Series "G" war bonds, one quarter in speculative rail bonds, one quarter in "secondary" equities chosen from the first list and one quarter in "representative" equities selected from the other two lists.

Answers to Inquiries

(*Continued from page 38*)

net sales to $4,483,232 in the 1942 semi-annual statement, from the prior year's $3,153,931. On the balance sheet several changes are worthy of note. Declining sales have resulted in inventory increase of $715,297 to $2,727,740 total or 33 per cent. Current assets of all kinds were $9,097,479 and current liabilities $4,203,808, leaving net quick assets of $4,800,000 with ratio of assets to liabilities of better than two to one, evidence of a sound financial structure. Sharp curtailment of the regular commercial line is causing substantial reduction in operating expenses, including complete stoppage on some items. While prospects for after the war remain good the indefiniteness of present conditions enforce the viewpoint that funds could be switched to a dividend payer at approximately the same price. Such recommendations are Nash Kelvinator or Burroughs Adding Machine.

Mathieson Alkali Works, Inc.

Two years ago, I purchased 100 shares of Mathieson Alkali Works common around $28 per share. Last year I received dividends of $1.75 a share on my stock, but my last two dividend checks were for only $0.25 a share each. Do you think there is danger that the dividend might be cut still more, or omitted entirely? How is the company making out with regard to war business? Should I hold my stock, or get out of it, if the market goes higher?—H. T. R., Los Angeles, Calif.

Report of Mathieson Alkali Works, Inc. for the six months ended June 30, 1942, revealed net income of 57 cents against $1.10 earned in the similar prior period. During 1941 net sales were $15,533,667 against $12,470,934 in 1940 and $10,967,294 in 1939. Costs and expenses are trending higher, as witness, a $30,000 increase in miscellaneous expense thus far for 1942. Depreciation, obsolescense and depletion has remained steady but Federal income taxes rose from $450,000 for six months of 1941 to $925,000 in 1942. This increase in taxes possibly represents the maximum in percent of operating income as it is computed on the rates as passed by the House of 45 per cent normal and surtax and 90 per cent excess profits. The company, normally a leading producer of alkalies sold to rayon and paper industries has enlarged its war scope by building a large magnesium plant at Lake Charles, La. which it manages for the Government. The tremendous commercial future of this element lends great interest to the stock on this score. In addition, Mathieson has recently contracted to operate an anhydrous ammonia plant for the Government. The balance sheet for the year ended 1941 showed working capital of $4.4 millions with net quick assets better than three times as large as current liabilities. Estimates of earnings of $1.60 per share for the year are believed to be conservative, the present quarterly dividend of 25 cents a share is easily maintainable, with some prospects of an extra at year end. This seasoned chemical seems assured of continued success, its earnings destined for better stability making it an attractive speculation for capital enhancement.

Is Inflation Stopped?

(*Continued from page 13*)

of the weapons of taxation and forced savings would be widespread rationing of consumer goods as the pinch becomes progressively more severe. The great disadvantages of this course are: (1) Despite manpower shortage, a huge administrative bureaucracy would be required for enforcement and policing; and (2) the evil of "black markets" could no more be avoided than it has been avoided in England or Germany.

As it is now, the pace of inflation —as reflected in your living costs from month to month—is quite moderate. The net effect of the new controls will be to moderate it further, but not to stop it. The subject of inflation will not disappear from press discussions and political debate, any more than it ended when the retail price ceilings were imposed last April.

And as regards official action, the President's new stabilization move will not be the last word. There remain some big decisions to be reached in the matters of job control, consumption-reducing taxes, compulsory savings, operating-cost subsidies, and rationing.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933

Of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST, published bi-weekly at New York, N. Y., for Oct. 1, 1942.

County of New York }
State of New York } ss.

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Laurence Stern who, having been duly sworn according to law, deposes and says that he is the Managing Editor of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher — C. G. Wyckoff, 90 Broad Street, New York, N. Y.

Editor—None.

Managing Editor — Laurence Stern, 90 Broad Street, New York, N. Y.

Business Managers—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

Ticker Publishing Company, Inc., 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (Stockholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecilia G. Wyckoff: (bondholder), 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustee, hold stock and securities in a capacity other than that of a bona fide holder; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is — (This information is required from daily publications only.)

LAURENCE STERN,
Managing Editor.

Sworn to and subscribed before me this 25th day of September, 1942.

[Seal] THEODORE M. FARLEY.

(My commission expires March 30th, 1943)

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